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What Does Your Company *Really* Stand For?

Figuring that
out is essential.
Here's how.

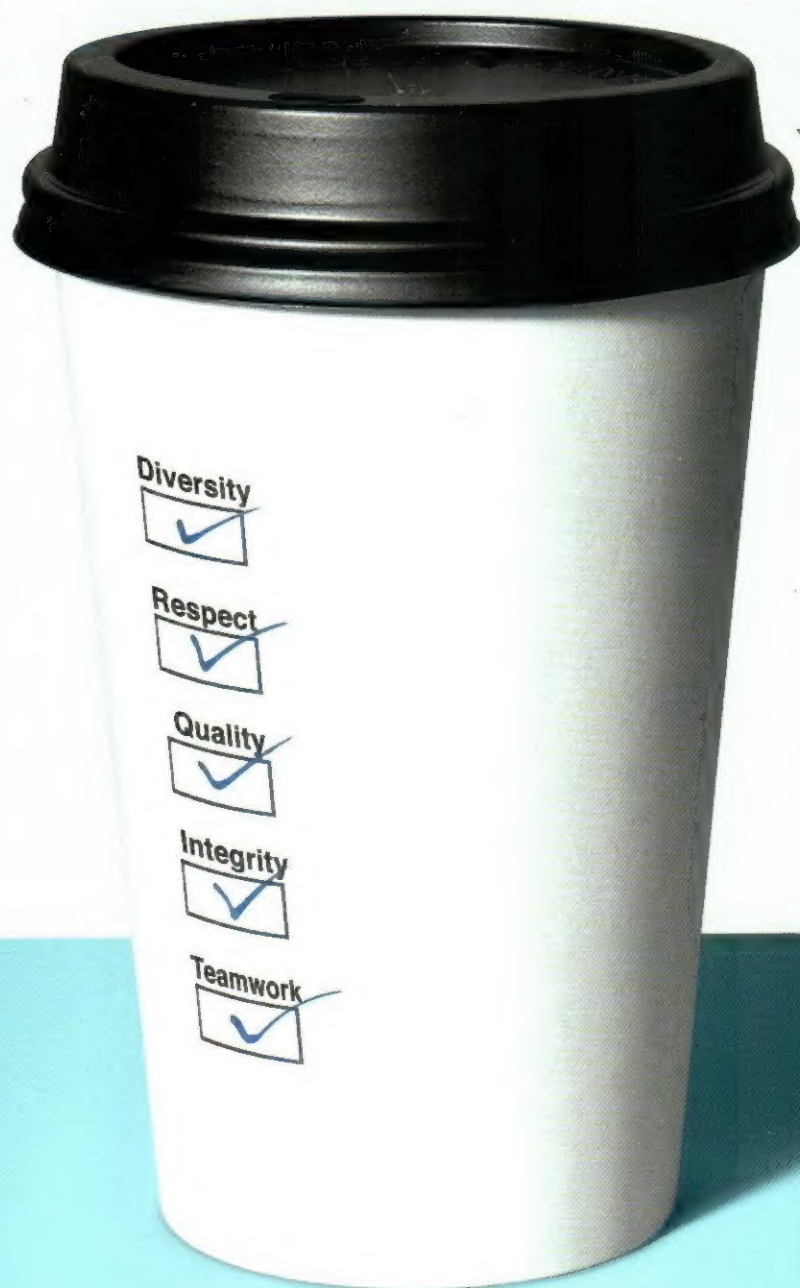
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"The stakes for organizations to get it right
on values have never been higher."

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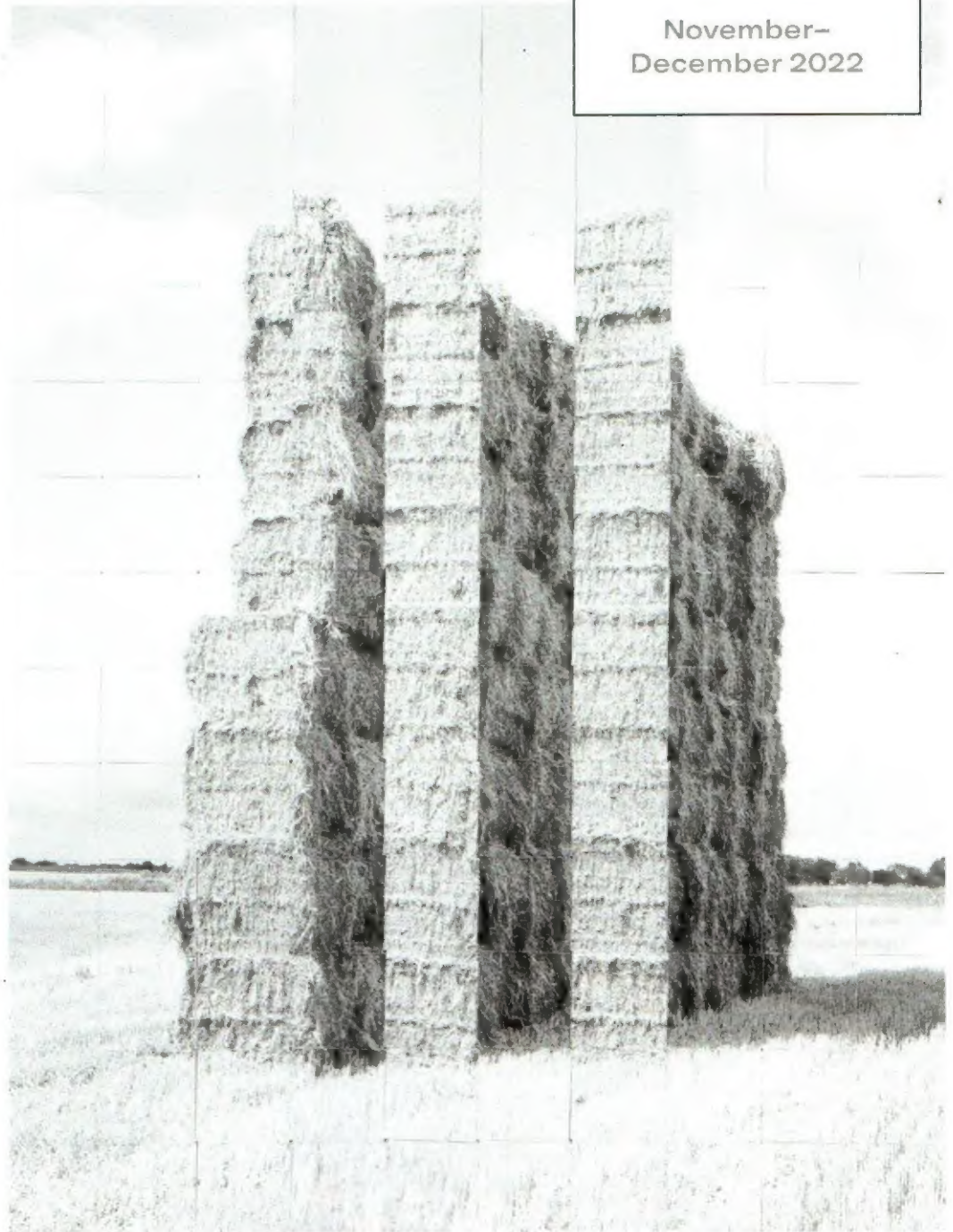
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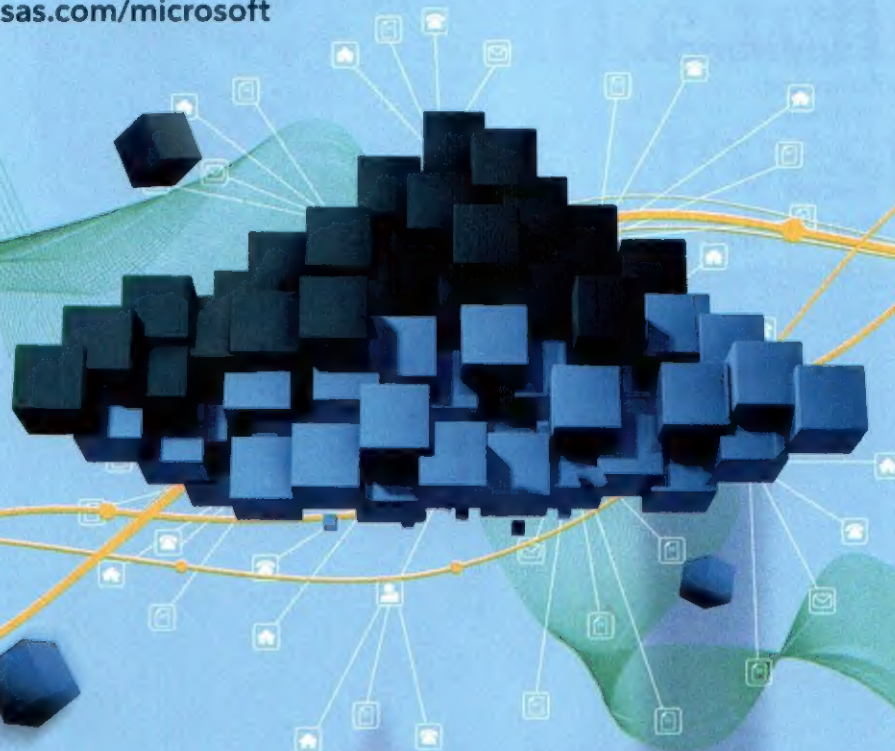
You can't just get the product right—you may need to change consumer behavior too.

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"Our organization was full of people who understood that we had to embrace disruptive thinking."

—MICHELE BUCK, CEO OF HERSHEY

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Adi Ignatius batting for HBR's softball team

A FEW YEARS ago I interviewed Meg Whitman, then the CEO of Hewlett Packard Enterprise. We had a wide-ranging discussion, but one comment of hers stood out: "I had played a lot of sports as a girl, so I knew how to be part of a team."

I often think about whether experience with team sports helps build leadership skills. I've played quite a bit of baseball and softball in my life, and for me it has been a learning ground for team dynamics. As Whitman put it, "The 'all for one, one for all' approach, led by a coach, was part of how I learned to lead."

There are, of course, many effective leaders who don't have any such experience. But can sports provide takeaways for them as well? Harvard Business School professor Anita Elberse believes it can, and in her MBA classes she regularly uses case studies of successful sports leaders. In this issue she analyzes the mindset, values, and practices that team principal Toto Wolff has instilled while leading his Formula One racing team, Mercedes-AMG Petronas, to eight consecutive championships. Elberse, who spent time with the team in the 2021 season, synthesizes Wolff's approach into six lessons that leaders of any organization can implement.

I look forward to trying them out with HBR's softball team—and at work.

ADI IGNATIUS

Editor in Chief



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Contributors



Many companies call on **Ella F. Washington**, an organizational psychologist at Georgetown University and a diversity strategist, to ensure that they are instituting best practices regarding DEI. But focusing only on best practices is the wrong approach, she says. In this article, adapted from her book *The Necessary Journey* (Harvard Business Review Press, 2022), Washington outlines the five stages organizations typically move through. “When companies understand where exactly they are on the journey, they can focus their energies on the right activities, making their DEI efforts more successful,” she says.

92 The Five Stages of DEI Maturity



Steven Rogelberg, an organizational psychologist at the University of North Carolina at Charlotte, enjoys studying underexplored workplace issues—especially those that affect employees’ experience and leaders’ success. Much of his research focuses on workplace meetings. (Adam Grant calls him “the world’s expert on how to fix meetings.”) In this issue Rogelberg explores how managers conduct one-on-one meetings with direct reports. “These are highly important and often poorly executed,” he says.

139 Make the Most of Your One-on-One Meetings



Anita Elberse, a professor at Harvard Business School, studies entertainment, media, and sports. She focuses primarily on what makes products succeed in those industries, but she’s also interested in leadership. So when she recently had a chance to spend time with Toto Wolff, the head of the Formula One team Mercedes-AMG Petronas—the best in the sport’s history—she jumped at it. Soon she was at a racetrack in Belgium with Wolff and his team, watching them compete in one of Formula One’s most closely contested title races. In this issue she shares the secrets of the team’s—and Wolff’s—success.

70 Number One in Formula One



In one of the classes he teaches at Columbia Business School, **Paul Ingram** works with students on identifying their top personal values and determining the relationships among them. The result is what he calls a *values structure*. After hearing many students complain that their values structures didn’t align with the values of the organizations they worked for, Ingram teamed up with one of his PhD students, Yoonjin Choi, now of London Business School, to research the benefits of values alignment and develop the process they describe in this issue for achieving it.

40 Values Alignment: A Process for Achieving It



Trained at the Birmingham Institute of Art and Design, the illustrator **Helen Green** saw her career take off in 2015 after her animated portrait of David Bowie (for his 68th birthday) went viral on social media. To create the CEO portraits in this issue, Green studied photographs and then made sketches using an iPad Pro, a digital pencil, and an airbrush for shading. “It’s important that they feel engaging and consistent,” she says. “I love how illustration can unify a set of images, creating the illusion that they were all taken from the same photo shoot.”

56 The Idiosyncrasies That Inspire Us

Why Agility Is Critical to Business Growth



Marie Gulin-Merle is Google's
VP of Global Ads Marketing.

The uncertainties of today's global economy make it increasingly important to plan ahead and pivot. To get the most return on investment (ROI), marketing and finance teams need to partner closely to stay agile while managing their resources and budgets.

To explore agility in digital marketing specifically, Google recently partnered with Kantar to survey over 2,400 global marketers and understand their approaches to planning, allocating, and optimizing digital budgets. Nearly a quarter of the marketers surveyed are considered "budget-agile"—meaning they adjust budgets across digital channels on a weekly or more frequent basis.

Leading marketers are budget-agile

Budget-agile marketers report better marketing performance. 48% of budget-agile marketers say their marketing performance exceeded internal expectations and key performance indicators (KPIs), compared to 33% of marketers who are not budget-agile.

Budget agility empowers marketers to stay flexible and reallocate budget to areas of high potential: 31% of budget-agile marketers say it's "very easy" to get additional budget to start new tests that weren't included in the initial media budget, compared to 9% of non-budget-agile marketers.

Having the flexibility to engage in planning while leaving room for growth opportunities can yield better business outcomes. Budget-agile marketers are 25% more likely than non-agile marketers to report their performance as stronger than industry competitors.

Are you as agile as you think?

Most marketers overestimate how budget-agile they really are based on their behaviors. Teams often can't make flexible adjustments to allocate spend where the highest-ROI opportunities exist.

On average, 60% of marketers who say they are "extremely agile" only make budget adjustments across digital channels monthly or less frequently. Only 17% of budget-agile marketers and 6% of non-agile marketers have channels with uncapped or unlimited budgets that make it easy to increase budgets for new opportunities. And even marketers who are considered budget-agile face time-consuming approvals to pass budget changes. For 59% of budget-agile marketers, digital budget changes of 20% or more take a week or longer for approval.

The gap in perceived budget agility and actual budgeting behaviors exists up and down the organizational ladder, but it's especially prevalent in the C-suite. In fact, C-level executives are two times more likely than individual contributors to perceive their business as extremely budget-agile.

Four actions to boost budget agility

It doesn't take dramatic changes to make meaningful progress. Organizations can improve budget agility with four measures.

- 1 **Breaking down silos:** 58% of marketers have created more cross-channel team touchpoints such as meetings, training, and information-sharing to improve collaboration.
- 2 **Adopting automation for media buying:** Budget-agile marketers are 29% more likely than non-agile marketers to use automation to maximize ROI across channels.
- 3 **Implementing consistent measurement:** 41% of marketers surveyed have instituted shared metrics and KPIs across channels to improve collaboration.
- 4 **Partnering with agencies:** 42% of budget-agile marketers say their agency partners greatly influence adjustments they make after initial budget planning, compared to 31% of non-agile marketers.

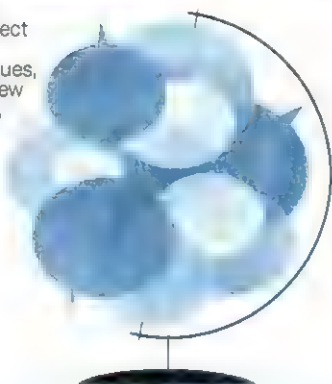
Don't let your plans keep you stuck in the past—as you plan ahead, stay ready to pivot. Becoming a more agile organization can help you move faster, capture new performance opportunities, and drive long-term business growth.

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How to
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and
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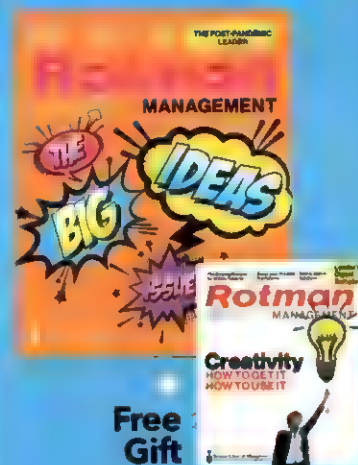
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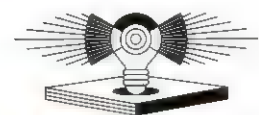
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IN THEORY

Revitalizing Culture in the World of Hybrid Work

Three strategies can help employees anywhere feel connected.



IdeaWatch

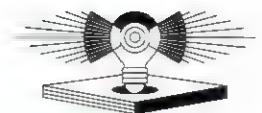
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WO-PLUS

YEARS INTO the pandemic, many leaders worry that remote and hybrid work are undermining their organizations' culture. Their concerns aren't entirely misplaced: A 2022 global study by the research and advisory firm Gartner found that just 25% of remote or hybrid knowledge workers feel connected to their company's culture. But forcing employees back to the office is risky, as CEOs including Elon Musk and Jamie Dimon have discovered firsthand. Companies should take another tack.

"I find it ironic when leaders say they need to bring workers back to the office because of culture," says Alexia Cambon, a research director in Gartner's HR practice and a principal author of the study. "They're going to get the opposite of what they hope for. Instead of viewing hybrid work as a disruption



Idea Watch

to the cultural experience, leaders should see it as an opportunity to build culture differently.”

Culture can be evaluated on the basis of two components, Cambon explains: alignment (meaning that employees know what the culture is and believe that it is right for the firm) and connectedness (they identify with and care about the culture). A Gartner survey of more than 4,500 knowledge workers and 200 HR leaders showed that in-office mandates drove connectedness sharply down. Among employees with “radical flexibility” (defined as considerable freedom over location, schedule, work volume, team, and projects), 53% reported a high degree of connectedness, whereas just 18% of those with low flexibility did so.

That’s important, the research shows, because more-connected workers perform at a higher level than others (by as much as 37%) and are 36% more likely to stay with the organization. In another Gartner survey, half of knowledge workers said they would jump ship if their company rescinded their Covid-era flexibility. “Some CEOs may think that workers will grumble a bit but eventually habituate to a full-time return,” Cambon says. “Without a sense of connectedness, though, they have nothing to stop them from going to a less-rigid company.”

Before the pandemic, firms tended to focus their culture-building efforts on alignment, trusting that connectedness would occur more or less by osmosis. “Leaders hoped that the way offices were designed and decorated and the frequent interactions among workers would foster an emotional connection with the organization,” Cambon says.



That approach had limitations even before the pandemic, she adds, and it is obviously insufficient in a world where employees spend 65% less time in offices than they did before the pandemic.

The researchers suggest three strategies for driving connectedness among hybrid and far-flung workers.

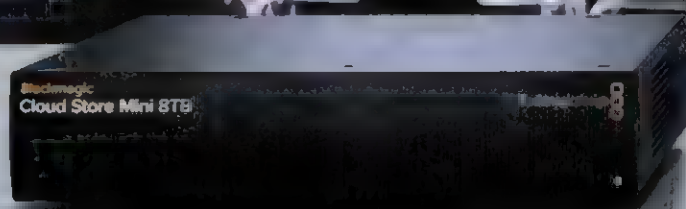
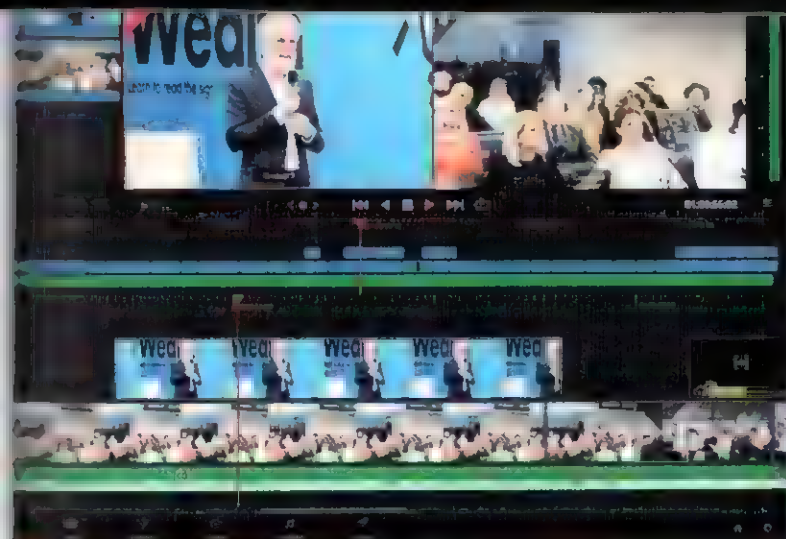
1 Shift from diffusing culture through the office to diffusing it through the work itself. Managers often worry that remote workers’ productivity will suffer because of interruptions and distractions at home. In fact just the opposite happens: People often have more time for deep work, and productivity soars. This points to a valuable opportunity for employers to instill culture through daily tasks. “When you’re home, you have a more intimate relationship with work,” Cambon says. “Every time you engage in a task, you should see the corporate culture reflected in it.”

Leaders should start by auditing the firm’s work processes to make sure

they are compatible with the intended culture, the researchers suggest. “Say you want your firm to be innovative, forward-thinking, and fast-paced,” Cambon says. “If your methodologies are bureaucratic and your systems have constant technical glitches, that will undermine the culture.”

Companies should help employees see that their value comes from the role they perform, not their physical location. For example, Virgin Money, a financial-services company, identifies its call center workers as the “voice of the company.” Employees use an app to pinpoint what they most value in their work and then talk with their managers about how to adjust their roles to reflect those priorities. Companies should also encourage teams to set the rhythms for how work gets done rather than operate under manager-directed norms.

2 Connect through emotional proximity, not physical proximity. The view that in-office interactions sustain



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culture confuses physical proximity with the more important sensation of emotional proximity, the researchers argue. "Physical proximity is being in the same space as another individual—being seen," they write. "Emotional proximity is being of importance to others—feeling seen." One survey showed that emotional proximity increased employees' connectedness to their workplace culture by 27%, while physical proximity had no impact.

Because remote and hybrid employees have fewer workplace interactions, each exchange makes a stronger impact. That heightens the imperative to identify and remove toxic workers, especially those in positions of influence. It also means that companies should refrain from requiring people to attend meetings unless they're truly needed. The more employees feel that their contributions are valuable, the more connected to the culture they become.

Finally, leaders can create moments of emotional proximity by helping remote employees see how their work connects to the company mission. TBS, a pharmaceutical company based in Japan, uses role-play techniques during virtual onboarding to help people build an emotional connection to the firm from the start. New hires are assigned a medical condition that can be treated by a TBS drug and are asked to behave as a patient would. Someone assigned a gastrointestinal disorder, for example, would be pinged frequently for a bathroom break, thus simulating the inconvenience and discomfort patients endure. New employees also interview patients about how TBS offerings have

improved their quality of life. It's not about heaping praise on people, says Cambon. "It's about ensuring that employees understand the value of their work to the organization and beyond."

3 Shift from optimizing corporate culture to fostering microcultures.

Multinationals have long faced the challenge of creating a strong corporate culture while also allowing local microcultures to thrive. With hybrid work splintering workforces into more-autonomous cells, all companies must now strike that balance. The research suggests that leaders should favor somewhat devolved control: Survey respondents reported that team-level experiences increased connectedness substantially more than enterprisewide initiatives did. Royal DSM, a Dutch health and nutrition company, now treats the culture as a flotilla of independently piloted ships rather than a single tanker. "The company provides the flotilla with guidance to sail in the right direction, but it does not prescribe the norms and behaviors aboard each boat," the researchers write.

THE PANDEMIC HAS radically changed how employees experience corporate culture, and firms must embrace the new reality. "By relying less on osmosis to drive connectedness and more on intentionality," the researchers write, "leaders will see outsized impact on performance and intent to stay." ©

HBR Reprint F2206A



ABOUT THE RESEARCH "Culture in a Hybrid World," by Gartner (white paper)

"Hybrid Work Balances the Requirements of the Job with Personal Flexibility"

Over the course of the pandemic, almost all the 6,500 global associates of Acushnet—the parent company of golf brands Titleist and FootJoy—were told not to come in to work, and manufacturing shut down. The decision to focus on health and safety was easy, says chief people officer **Brendan Reidy**. Determining how and when people should return was much harder. Reidy spoke with HBR about how Acushnet's strong culture embraces hybrid work arrangements. Edited excerpts of the conversation follow.

How did you decide when to reopen?

Shortly after the shutdown, we experienced a huge uplift in business as people flocked to outdoor recreation. The question became: How do we keep our associates safe while meeting our customers' growing needs? Our manufacturing operations reopened in

accordance with local and state guidelines and when we could ensure a safe work environment. As for our office-based associates, we have always empowered our leaders around the world to make decisions in the context of their local businesses. So as things began to improve, we let them use their own judgment about associates' returns, as long as they were in accordance with global health and safety guidelines. We determined at the corporate level that our future was with hybrid work.

How do you define "hybrid"?

Our goal is a productive, engaged, and passionate workforce and a workplace that encourages meaningful collaboration. We're not designing things so that associates will bump into each other in the hall; we're designing them so that groups come together for specific types of tasks. You can share a prototype of a shoe remotely, but at a certain point team members need to hold the shoe and feel the leather and so on. A special piece of our culture happens when we gather and we want to continue that. Some of our associates, particularly in manufacturing and R&D, will be on-site because their jobs require it. Others will come in every day because they prefer it or occasionally for meetings or to use office resources. Hybrid work balances the requirements of the job with personal flexibility.

So full-time office work is not essential to culture?

Every company is different. But hybrid doesn't mean business as usual except with only half the



associates present. You need to create a new reality where each in-person interaction is intentional and collaboration can happen more effectively. That's more beneficial to building culture than the old watercooler chats ever were.

Are you concerned that remote workers will shirk?

No. We take pride in the long tenure of most of our associates. We lead with trust, recognizing that associates' situations differ.

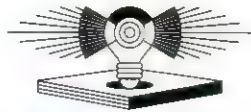
How do you enculturate new hires if they don't spend much time in the office?

The key is to distinguish between macro- and microcultures. We consistently communicate our core values, particularly during onboarding. They're also reflected in our performance management systems. But we lean on managers to guide new hires and orient them to team norms; we've implemented new training to build their capabilities in that area. In a hybrid world, associates have

fewer but deeper interactions. Their relationship with their manager is even more important now.

What lessons can you share?

Really listen to associates. Ask whether they have the tools and support they need to succeed. Is information being shared? Are new technologies working? It is easy for problems to go undiscovered in a hybrid world. You have to pay close attention and include associates in creating ways to best navigate the new work arrangement. ☺



IdeaWatch

A MOVEABLE FEAST

TALENT

Does Acquiring a Firm for Its People Pay Off?

Each year thousands of tech start-ups are bought by large companies often motivated by the prospect of gaining key technical and managerial talent. A new study finds that this may not pan out.

The researchers compiled a list of all U.S. companies that bought or merged with VC-backed firms from 1995 to 2010. They constructed a data set of more than 30 million publicly posted résumés and identified more than 60,000 people who were employed by one of the start-ups at the time of its acquisition. They then constructed a control group: employees hired organically by the

parent firm the same year and closely resembling their acquired counterparts on several dimensions, including job role, rank, and experience. An analysis post-acquisition showed that organically hired employees left their new firms, on average, after 2.3 years of service, while acquired employees left after just 1.6 years. And turnover among acquired employees rose with seniority and education and was highest in critical technical, executive, business development, and sales roles—precisely the types of employees acquirers most want to retain.

Post-acquisition integration is obviously disruptive, the researchers note, and cultural and other differences between the target and acquiring firms may heighten the urge to go elsewhere. “Merging a ‘startup’ into an ‘established’

firm creates a de facto mismatch between the current-job preference of employees and their post-acquisition job context,” the researchers write. “If an employee [chooses] a startup role because she values a general absence of bureaucratic procedures, [she] may perceive her work role to be less compelling after her startup is acquired.”

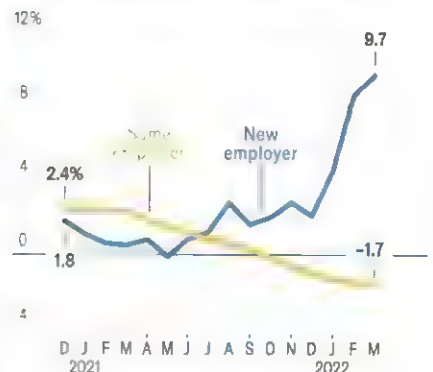
ABOUT THE RESEARCH “Acquired Employees Versus Hired Employees, Retained or Turned Over?” by Weiyi Ng and Toby E. Stuart (Strategic Management Journal, 2022)

EARNINGS

One Way to Beat Inflation: Change Employers

The wages of most workers who switched companies in recent months have stayed ahead of rising prices—while the inflation-adjusted earnings of the rest of the workforce have steadily declined

Median year-over-year change in U.S. workers’ inflation-adjusted incomes



“Majority of U.S. Workers Changing Jobs Are Seeing Real Wage Gains,” Pew Research Center (2022)





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ENTREPRENEURIAL FINANCING

The Power of Alumni Networks

VC-backed start-ups account for more than 40% of all IPOs in the United States. A new study reveals an important fact about their investors: In many cases they attended the same university as one or more of the companies' founders did.

The researchers gathered information on the founding teams of every U.S.-based company that had an early-stage investment deal listed by PitchBook (a firm that tracks entrepreneurial financing) from 2002 to 2020. The data included the education history of company founders and investors and details about funding rounds and IPOs. The researchers also gathered information on the 550 largest U.S. universities represented in the PitchBook data, including location, enrollment, and average SAT score of admitted freshmen (a proxy for academic quality). Their analysis showed that in more than a third of early-stage investments, at least one member of the investing team and one member of the founding team had attended the same school.

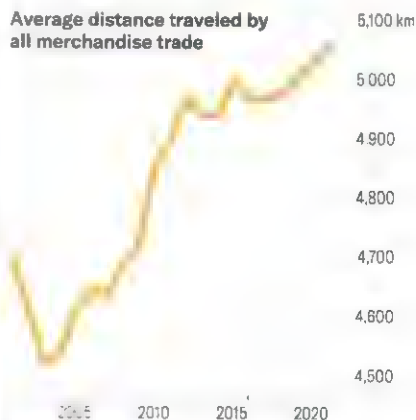
Examining comparable deals—those in the same state, industry, and year—the researchers found that when investors shared an alumni connection with a founder, they were 10% more likely to fund a venture, on average, and the investment amounts were 18% higher. Surprisingly, the effect of the alumni connection was stronger for graduates of less-prestigious universities than for alumni of elite ones. This suggests, the researchers write, that “educational connections act as a partial substitute for the public signal about entrepreneurial skills/intelligence provided by a degree from a prestigious school.” What’s more, the start-ups supported by investors with alumni connections outperformed those in comparable firms without such connections: They were 33% more likely to conduct an IPO. “Early-stage investors tilt their portfolios toward entrepreneurs from their alma mater, and...these bets pay off,” the researchers conclude.

ABOUT THE RESEARCH “Alumni Networks in Entrepreneurial Financing,” by Jon A. Garfinkel et al. (working paper)

GLOBAL ECONOMY

No, Trade Hasn't Become More Regional in Recent Years

Experts have long predicted that trade would become increasingly regional as companies sought to produce goods closer to market—and they expected the pandemic to fuel that trend. The data tells a different story, though. In 2020 and 2021, confounding most forecasts, trade was generally conducted over longer distances, as Asian exports grew to meet global demand.



Source: “Globalization: More Hype Than Reality?” by Jon A. Garfinkel et al. and Caroline R. Bastian (HBR.org)

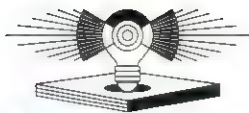


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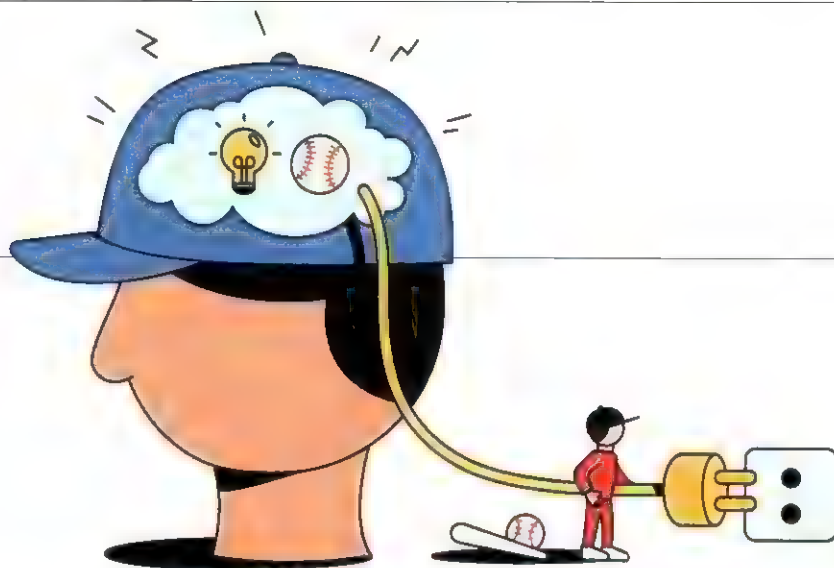
IdeaWatch

DECISIONS

What Umpires' Calls Reveal About Our "Attention Budget"


According to scientists, we make some 35,000 decisions a day. We can't give full attention to them all; we have to allocate our attention strategically. A new study illuminates that process by examining the work of home plate umpires, who must make the same sort of decision over and over during the course of a baseball game.

The researchers analyzed more than 3 million strikes and balls called in 26,523 games played from 2008 to 2018, using a high-precision pitch-analysis tool to determine the accuracy of each call. They calculated the importance of each call according to the probability of its changing the outcome of the game, drawing on some 5 million game simulations to inform their calculations. They found that umpires adjust the attention they pay to any given pitch in response to its importance. For instance, a one-standard-deviation increase in importance increased the likelihood of a correct call by 0.61%—equivalent to raising a median umpire's accuracy to that of a 73rd-percentile umpire. They also found that high-stakes decisions in the past meant less attention for ones going forward: A one-standard-deviation increase in the importance of past calls reduced the probability of a correct decision by 0.32%, or the equivalent of reducing a median umpire's accuracy to that of a 45th-percentile umpire. And they found that umpires appear to look ahead, relaxing their attention



to current calls when they expect that higher-stakes decisions will be forthcoming.

However, these effects did not span the entire game; the two-minute intervals between half innings seemed to reset the process, letting umpires replenish their attentional capital. "Although umpires work in the sports industry, [they are] professional decision-makers," the researchers write. "Such evidence could point to the utility of short breaks built into the working day in many cognitively demanding professions."

 **ABOUT THE RESEARCH** "The Dynamics of Inattention in the (Baseball) Field," by James E. Archsmith et al. (working paper)

Being Overqualified Can Be Especially Bad for Women

Many hiring managers are leery of applicants with more experience than is needed for a job, fearing they'll soon leave for something better. A new study shows that while such fears reduce male

candidates' odds of getting an offer, they don't harm women's chances—but that's not exactly good news for women.

The researchers created two applicant profiles for a hypothetical analyst's position at an investment bank: one for a candidate with the requisite qualifications and one for a candidate who was vastly overqualified. For each profile, they created a male-candidate version and a female-candidate version. In a series of experiments, seasoned hiring managers evaluated one of the four profiles, shared their views of "Thomas" or "Sarah," and indicated their likelihood of making an offer. The overqualified Thomas was less likely to receive an offer than the merely qualified Thomas was—but when it came to Sarah, overqualification resulted in *more* offers.

Survey responses showed that perceptions about the candidates' commitment to the firm and to their careers were responsible for the difference. Thomas was seen as firmly committed to his career regardless of the extent of his qualifications, and managers worried that the overqualified version of him would move on once a better opportunity came along. By contrast, Sarah was seen as strongly committed to her career only when she had excessive qualifications. Some

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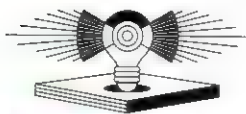
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Idea Watch

BABY BUST

managers suspected that the appropriately qualified version of her was looking to change jobs in order to slow down and spend more time with family, which made them reluctant to hire her. Managers were willing to accept that the overqualified Sarah was committed to her career because she had demonstrated effort by acquiring extra experience and skills. And yet that overqualification didn't scare them off as it had in Thomas's case, for two reasons. First, the managers appeared to embrace the stereotypical notion that women value community and relationships more than men do, and this reassured them that Sarah would stay with the firm. Second, they assumed that she was pursuing a lower-level job with a new employer because she had encountered unfair barriers to advancement at her previous one, a reason they considered valid and nonthreatening.

The pattern thus revealed is hardly a boon to women, the researchers emphasize, even if it means that female applicants sometimes edge out men. "Increased flexibility to move into positions that are lower in rank than one's current role is not an advantage," they write. "Instead, our findings suggest that women need to have more qualifications than is needed for a job to overcome negative, gendered assumptions."

ABOUT THE RESEARCH "He's Overqualified, She's Highly Committed: Qualification Signals and Gendered Assumptions About Job Candidate Commitment," by Elizabeth Lauren Campbell and Oliver Hahl (Organization Science, forthcoming)

Do We Really Need to Leave Our Cameras On?

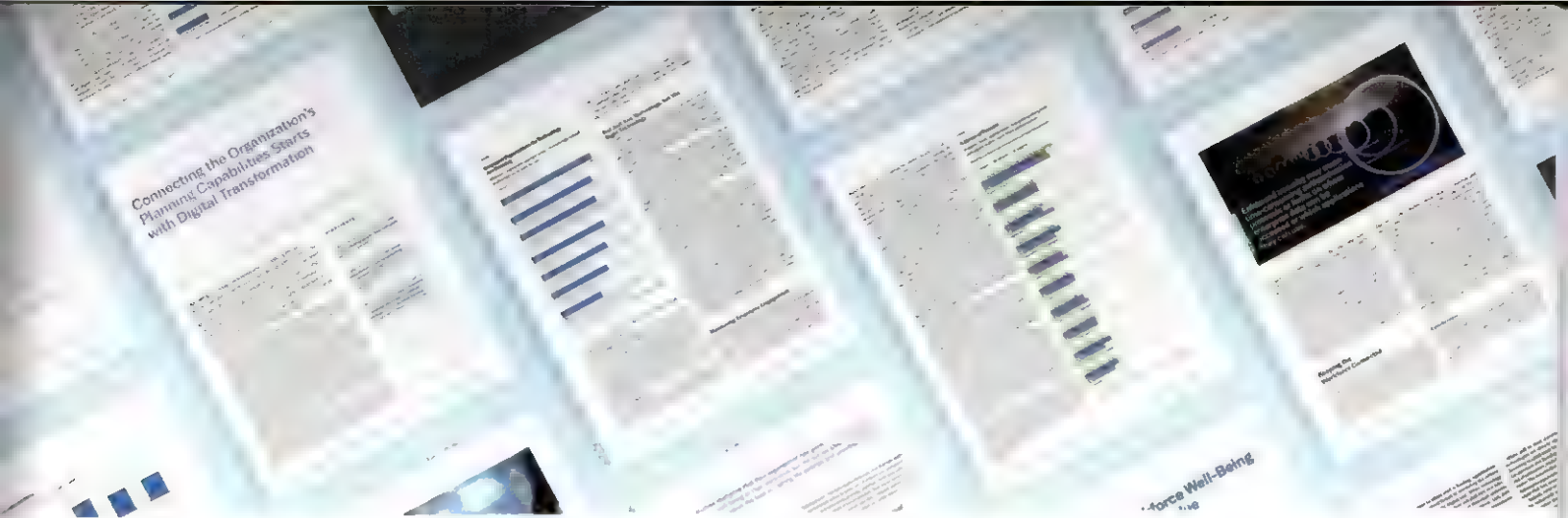
Managers often assume that the more a digital interaction resembles a face-to-face exchange, the better the communication will be—and so they often encourage employees to use their cameras during online meetings. A new study questions the wisdom of that thinking.

The researchers divided 198 pairs of remote participants into two groups before assigning them several tasks aimed at assessing collective intelligence—a key element of collaborative problem-solving. The pairs in one group communicated over video calls; the others conferenced over audio only.

Using AI tools, the researchers rated the synchrony of each pair's facial expressions and so-called prosodic speech (tone, rhythm, and other vocal cues), along with how well they took turns speaking. Surprisingly, video provided no boost to either collective intelligence or facial expression synchrony—and the audio-only pairs were more successful at synchronizing their vocal cues and taking turns. "Limited access to video may promote better communication and social interaction during collaborative problem-solving," the researchers write, "as there are fewer stimuli to distract collaborators."

ABOUT THE RESEARCH "Speaking Out of Turn: How Video Conferencing Reduces Vocal Synchrony and Collective Intelligence," by Maria Tomprou et al. (PLOS ONE, 2021)





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Where the Digital Nomads Can Roam

In response to the "work from anywhere" trend, many countries now offer special short-term work visas, with measures such as limits on duration to ensure that visa holders can support themselves without taking local jobs

Visa duration (months)	Visa fee (US\$, as of May 2022)	Income tax liability	
		NOT RENEWABLE	RENEWABLE
Anguilla	12	\$2,000	YES
Antigua & Barbuda	24	1,500	YES
Aruba	3	73	YES
Australia	12	347	YES
Barbados	12	2,000	YES
Bermuda	12	263	YES
Cape Verde	6	57	YES
Cayman Islands	24	1,469	YES
Costa Rica	24	550	YES
Croatia	12	155	YES
Curaçao	6	297	YES
Cyprus	12	63	YES
Czech Republic	12	163	YES
Dominica	18	900	YES
Dubai (UAE)	12	611	YES
Ecuador	24	450	YES
Estonia	12	100	YES
Georgia	12	33	YES
Germany	36	100	YES
Greece	12	88	YES
Grenada	12	1,500	YES
Iceland	6	60	YES
Malta	6	316	YES
Mauritius	12	0	YES
Mexico	12	45	YES
Montserrat	12	500	YES
Norway	48	630	YES
Panama	9	300	YES
Portugal	12	163	YES
Romania	12	126	YES
Seychelles	12	47	YES
Sri Lanka	12	500	YES
St. Lucia	12	70	YES

Source: "How 'Digital Nomad' Visas Can Boost Local Economies" by Prithwraj (Ray) Choudhury (HBR.org, 2022)

*For up to 180 days



Mindfulness Can Improve Outcomes— for All Parties

The workplace benefits of mindfulness are well-known: Research has shown that it can improve focus and reduce burnout, among other things. New studies find that even short mindfulness exercises can enhance negotiations, helping parties reach better settlements for themselves and also paving the way to win-win outcomes.

In one of the studies, the researchers randomly divided participants into pairs of buyers and sellers for a mock negotiation about the sale price of an industrial plant in which the parties were initially \$8 million apart. Half the pairs began with a short mindfulness session—and were more than three-and-a-half times likelier than the others to split the \$8 million down the middle. In another study, pairs of participants—half of whom, again, began with a mindfulness session—had to decide how to divide 3,000 kukui nuts given that one person was interested only in the shells while the other wanted just the insides (a classic negotiation exercise).

The mindful pairs were more than three times likelier than the others to reach a so-called integrative agreement: one in which each person received the desired parts of all 3,000 nuts rather than, say, 1,500 entire nuts.

A subsequent study involving negotiations about vacation plans also found that mindfulness boosted the chances of mutual gain. And by surveying participants after the fact and having independent observers analyze the negotiators' chat sessions, the researchers determined that self-transcendence—shifting from an egocentric focus to a broader perspective—was responsible for more than 80% of the effect. "Whether one wants to maximize individual gains or reach cooperative agreements, negotiators should benefit from a short mindfulness practice before starting the negotiation," the researchers write, noting that this requires both parties' participation in such a practice. ☺

ABOUT THE RESEARCH "Going Far Together by Being Here Now. Mindfulness Increases Cooperation in Negotiations," by Theodore C. Masters-Waage et al. (Organizational Behavior and Human Decision Processes, 2021)

Why the Gender Pay Gap Hurts Business— And How You Can Help Close It



One of the most intractable and unjust imbalances of the American workforce is salary. Women earn only 82 cents for every dollar of men's income. And intersectionality—including race, color, and sexuality—exacerbates the pay inequity that oppresses people in the workplace.

The business case for pay equity is clear. Fairness heightens productivity and engagement, talent attraction and retention, and diversity and inclusivity. And given the labor shortage and the public expectation that organizations support human rights, your performance on any of these factors can make or break your business.

Yet the pay gap persists. Many organizations struggle to close it because of factors like complexity, a culture of silence, a lack of transparency, and an absence of leadership.

A clear majority of executives and employees consider pay equity a priority, but fewer than half of employees feel their organizations have achieved it, a recent Harvard Business Review Analytic Services survey showed. The pay gap is also a gap in perception: half of white male employees deem organizations successful on pay equity—but only 35% of Black/African-American women and Hispanic/Latinx women and men agree.

Strategies for Success

The pay equity imperative calls for all organizations to assess their policies and programs to support their workforce. Such strategies include getting executive

leadership support; identifying groups that experience pay inequity; crafting a mindful plan; ensuring human resources can advocate for underrepresented employees in need; conducting workforce surveys and audits; building a culture of transparency; and using technology to ensure effective, equitable change.

Toward a Fairer Future

Organizations using UKG's workforce technology already support pay equity. For every employee paid through UKG software, the Close the Gap Initiative commits 18 cents to awareness and action for pay equity. That amounts to \$3 million annually to:

- Provide philanthropic support to nonprofits focused on equity for women and other traditionally underrepresented groups: Grantmakers for Girls of Color, Lean In, Reboot Representation, and 9to5.
- Partner with experts on pay equity best practices.
- Collaborate with Harvard Business Review Analytic Services to study pay equity in America.

Start your pay equity journey with UKG.

Providing equal opportunity for all people is at the heart of being a great workplace. To be truly supportive, employers must recognize a person's value and compensate them equitably based on skills, experience, and the work they perform, no matter their gender.

**Brian K. Reaves, EVP & Chief
Belonging, Diversity, and
Equity Officer, UKG**





IdeaWatch

Professor Nailya Ordabayeva and Dr. John Cavanaugh and Lauren Dahl of the University of British Columbia—showed 300 NFL fans a description of a league-branded hoodie and either a one-star or a five-star review of it by a Cleveland Browns fan. The participants were asked to rate their similarity to the reviewer and their intent to buy the hoodie. They saw the one-star review rather than the five-star review. When they felt unlike the reviewer, the one-star review generated significantly higher purchase intent than the five-star review. The conclusion:

Negative Reviews Can Boost Sales Even More Than Positive Ones



Professor Ordabayeva, DEFEND YOUR RESEARCH

ORDABAYEVA: When people identify strongly with a brand, as football fans do with the NFL, a negative review may seem like a threat to their own identity. This often happens when the review comes from a “socially distant” source: someone who is dissimilar to them in

terms of geographic location, age, gender, sports team affiliation, and so on. In that instance people are apt to question the reviewer’s right to criticize the brand. They may consequently feel an urge to “protect” it by increasing their preference for it and their intent to buy

it. It’s a visceral reaction to what feels like a personal attack.

HBR: Are our egos really that fragile?

As a rule, no. Only certain types of brands trigger this reaction—ones in which you see some facet of yourself. You might really like a particular dish soap or laundry detergent, but you wouldn’t see it as an important part of your identity. After all, everyone has to clean the kitchen and do laundry; those things are an inescapable part of everyday life. They’re not self-defining in the way that allegiance to a sports team can be.

You could have an identity-relevant brand in almost any product category, but they’re more common in some—for instance, local restaurants. Certain tech brands can be tied to your identity, too; many people see owning an Apple device as a badge of creativity and innovativeness. Harley-Davidson and Dunkin’ fit that mold as well.

Why would social similarity or distance be so important? People differentiate between the sources of threats to their identities. Think about family relationships. If a relative of yours dislikes members of your family, you probably accept that he or she has the right to criticize them. It would be a different story if someone outside the family was critical, though. You’d be likely to dismiss that person’s comments, as the NFL fans who felt socially distant from the reviewer did.

How big a lift in purchase intent did the one-star review produce for those fans? Among the fans who felt highly distant from the reviewer, those who saw the negative review were 20% more



Only certain types of brands trigger this reaction—ones in which you see some facet of yourself.

willing to buy the hoodie than those who saw the positive review.

In another experiment involving NFL hoodies, we confirmed that negative reviews have this effect only when brands are identity-relevant. This time we recruited participants from the general population. We asked 399 people—not all of whom were football fans—to read a brief introduction to the NFL and indicate the strength of their relationship to the league. They then read a description of the hoodie along with a five-star or a one-star review by a Dallas Cowboys fan and indicated their social distance from the reviewer along with their purchase intent. Among participants who had the strongest relationship to the league but felt highly distant from the reviewer, purchase intent was 27% greater for those who read the one-star review than for those who read the five-star review. Among participants who strongly identified with the league and felt only mildly distant from the reviewer, the lift from the one-star review was much smaller. And the purchase intent of participants who felt little kinship with the NFL was lower when they read the one-star review than when they read the five-star review, regardless of their degree of social distance.

Are there reviewer traits other than social similarity or distance that matter?

Review history is important. If consumers know that someone consistently posts negative comments, they have all the more reason to dismiss a review and double down on their support for a brand. We tested this in two experiments among Canadian consumers using

reviews of President's Choice coffee—a brand many Canadians strongly identify with. In the first experiment some participants saw a negative review of the coffee by either an American reviewer—that is, a socially distant one—or a Canadian one, along with two other negative reviews written by the same person. Other participants saw no reviews. The purchase intent of people who read the American's review was 9% higher than that of those who read the Canadian's and about 11% higher than that of people who didn't read a review at all. In the second experiment, we indicated the reviewer's consistent negativity in a different way, by stating that he or she historically awarded, on average, just 1.5 stars out of five. This time the purchase intent of people who read the American's review was 11% higher than that of those who read the Canadian's review and about 6% higher than that of those who saw no review.

Managers sometimes go to great lengths to suppress negative reviews.

Are they wasting their time? It depends on the relationship customers have with a brand—something that can be readily determined by looking at fan forums, brand followers, and so on. If the target population identifies strongly with the brand, it may be best to let negative reviews be. In that case managers should collect and display information about the reviewers that consumers can use to infer their social distance from them.

Managers can also measure social distance by searching their platforms and databases for areas where customer and reviewer characteristics diverge. That will reveal customer

segments in which negative reviews are likely to produce benefits.

How can marketers make their brands more identity-relevant? Sometimes it's a matter of communication campaigns. Other times managers can incorporate some aspect of identity into the product itself. In Canada, for example, the outdoor lifestyle brand Roots puts a maple leaf on some of its products. In the States, Jeep has begun using the American flag on the badging of its cars.

Such products often appeal to consumers' collective identities, or shared sense of belonging to a group, and can spark a protective response even when a negative review comes from a close reviewer—*especially* when it comes from a close reviewer. In our experiments, we found that when collective identity was evoked, negative comments from a distant reviewer had no effect—as if there were no review. But when participants saw a negative review from a close reviewer—someone who was part of the same group and should share the collective identity—they viewed that person as a dissident, even a traitor, whose comments represented a more existential threat. So they went to greater lengths to compensate and expressed a purchase intent that was 10% higher than that of consumers who saw no review. This tells us that if managers can find ways to emphasize collective identity, they can inoculate their brand against negative comments from distant reviewers and even see a surprising upside from negative comments written by close reviewers. ☺

Interview by **Amy Meeker**
HBR Reprint F2206B



How We Did It

The CEO of Hershey on Turning a Candy Company into a Snacks Empire

by Michele Buck

HERSHEY HAS BEEN synonymous with chocolate for more than 128 years. From the iconic foil-wrapped Hershey's Kisses to the big bars that break into smaller

pieces to the chocolate syrup that's perfect in milk or over ice cream, our confectionery offerings have been enjoyed by generations of consumers. For decades we have innovated with chocolate and other sweet treats—different brands, flavors, sizes, packaging, and products—and taken them to key regions around the world. We are the largest candy company in the United States, and we have a profitable and growing international business.

But five and a half years ago, when I became the CEO of Hershey, I had a vision that we could be something more than a candymaker. Since then we've embarked on an ambitious journey. First, we set a bold new strategy: to make Hershey a snacking powerhouse by expanding into the savory and better-for-you product categories. Then we made it happen, by streamlining our global operations, bolstering our core, developing a more courageous culture, and executing a series of diversifying acquisitions. We've learned to be more entrepreneurial, adaptable, and agile. We've embraced disruption as an opportunity for growth. As a result we have more than doubled our market cap, and we're approaching \$10 billion in sales.

August



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OUR HISTORY

Hershey began as a subsidiary of Milton Hershey's original company, Lancaster Caramel, in 1894. In 1900 our founder sold his caramel business and placed a big bet on chocolate, with the idea that he could make what had been a luxury product more affordable and accessible. It all started with Hershey's chocolate bar. Hershey's Kisses followed in 1907, Mr. Goodbar in 1925, and a New York Stock Exchange listing in 1927. In those early years Milton Hershey solidified his legacy as not just an important local employer in what would become Hershey, Pennsylvania, but also a philanthropist: He founded a school for disadvantaged children and, later, a charitable trust to support it in perpetuity. He went on to fund big projects in and around his chocolate-making facilities, keeping people in jobs through the Great Depression and during World War II, when the company developed Field Ration D bars for soldiers.

From the 1960s to the 1990s Hershey focused on both organic growth—launching new chocolate-based treats such as Whatchamacallit, Hershey's Symphony, and Hershey's Nuggets—and acquisitions, including H.B. Reese Candy, home to Reese's Peanut Butter Cups, and Leaf, which came with brands such as Jolly Rancher, Whoppers, Payday, Good & Plenty, and Heath. Over the years, the company experimented with less-intuitive expansion—including a pasta business, made up of several strong regional brands, which lasted nearly 30 years, and the Friendly's restaurant chain. Both were shed in the 1990s because we were focused

on growing incremental revenue, and they didn't leverage our long-standing core capabilities. In recent years we've clearly defined what those are: a deep understanding of consumer snacking needs; taste science, product development, and packaging expertise; effective and extensive marketing; and ubiquitous distribution in our chosen markets.

Since joining Hershey, in 2005, I've learned that pride in the company's deep, rich history inspires all of us to be dedicated torchbearers of its legacy. Our aim is to build on Hershey's strong foundation and position the company to be even more resilient and connected to our customers.

Since the beginning of my career in the consumer-packaged-goods industry, I've been interested in transformation work, whether it involved bringing a more participative style of management to a unionized plant to boost its performance, streamlining a business unit with divestitures, or ramping up Hershey's brand-building efforts with more investment in advertising. In my first decade at Hershey, I worked as chief marketing officer, chief growth officer, head of our North American operations, and then in COO roles overseeing operations in North, Central, and South America. When I was the CGO, we started to explore a broader snacking play. In December 2011 we had acquired Brookside Foods, known for its chocolate-covered fruity centers, and in April 2016 we added Ripple Brands, the maker of barkThins, which took a popular holiday treat (broken-up pieces of high-quality chocolate mixed with nuts, pretzels, or coconut and drizzled with various icings) and made it an everyday

one. But it was our acquisition of Krave jerky, in 2015, that had started unlocking salty and other snacking options. Although it did not become a long-term brand in our portfolio, the experience proved that we could offer consumers more choice and helped us develop criteria for future acquisitions.

When JP Bilbrey decided to retire as CEO, in late 2016, I interviewed to be his successor and outlined this emerging idea for the board. We had learned a great deal, and the timing was right for the company to reimagine itself as an innovative snacking powerhouse. We were already the number one U.S. confectioner, which made us the number two U.S. snack company. I could see us becoming a leader in both categories. The board clearly liked the pitch and offered me the job. I began as Hershey's 12th CEO in March 2017.

PREPARING FOR TRANSFORMATION

The first step in any corporate transformation is to present a clear vision. So when I took the top job at Hershey, I explained our new strategy to every stakeholder. I told the team that we were going to improve performance in the existing confectionery brands and our international operations to position us for a more sustainable future. Once our core was thriving, we would pursue smart diversifying acquisitions. It was a holistic plan. To accomplish it, we would need to embrace a new way of working. Of course, we would retain all of Hershey's most important values: hard work and excellence, integrity, passion, dedication, making a difference, togetherness, and appreciating people.



Naysayers both inside and outside the company noted our previous failures at expanding beyond sweets and didn't believe we could do it.

But we would also up the ante on being courageous, taking risks, and moving with speed and agility.

As a new CEO calling for big changes like this, I met with some resistance. Naysayers both inside and outside the company noted our previous failures at expanding beyond sweets and didn't believe we could do it. Others perhaps just felt uncomfortable with the idea of shaking up the status quo. But having worked at Hershey for more than a decade, I had some insight into how I might get everyone on board. I knew that our organization was full of people who understood that we had to embrace disruptive thinking and accelerate our pace or risk being left behind. Those leaders already embodied the new, more entrepreneurial culture I was trying to foster. I'd seen them champion breakthrough ideas and enact change over the years—or get frustrated when bosses or bureaucracy quashed their innovative ambitions. So I tapped them as key influencers and, where necessary, paired them with outstanding executors who could take us from plan to reality to scale.

Then the work began. In the U.S. confection business we had been leaning a bit too heavily on product innovation to drive growth. We needed to get more creative in other areas—such as marketing, packaging, and pricing—to increase demand for our long-standing core brands. We investigated new consumer occasions on which our products could play a role, such as family movie night. We developed more user-friendly ways to buy our brands—for example, in resealable stand-up bags that would store more easily in a pantry and packs

of single-serving-size treats. We developed a more targeted media strategy—leveraging social media platforms in particular—that increased both our effectiveness and our efficiency. Those moves were rewarded: We quickly went from flat to mid-single-digit growth in that business.

In our international business we shifted our focus to the bottom line. That business, more than 50 years old and spanning Mexico, Brazil and other Latin American countries, Europe, the Middle East, Africa, India, and China, was now large enough that we needed to move into profitability mode. We devised a new strategy that focused our geographic and business portfolio on fewer bigger bets. We knew that improving margins and plant efficiency was key to fueling growth, so we took a holistic approach to strategic revenue-growth management and continuous improvement and reduced SKU complexity. Bold steps included doubling down on our investment in the Hershey's brand in certain markets, identifying Reese's as the next big driver of growth, and shuttering a major acquisition, Shanghai Golden Monkey. The result was a nearly \$200 million upswing in our non-U.S. profits—from losing money to making it—over five years.

Our success in revitalizing the core and making the international business profitable proved that we could take on new and transformative initiatives outside the confectionery space.

SMART EXPANSION

Our plan was to expand further into snacking, not diversify out of

confections. We wanted to build the portfolio in a way that would capitalize on our strengths and offer consumers more snacking occasions.

We started by looking at the entire snacking marketplace and identifying savory and better-for-you categories in which high sales growth demonstrated strong consumer interest. Then we zeroed in on specific brands that people truly love and keep buying. We expected that they'd have lower awareness and penetration than our existing portfolio brands had. But we were interested in businesses that had at least \$100 million in revenue that with our help could eventually fit seamlessly into our operating model and become iconic brands with high and expanding margins that would enable reinvestment and growth.

Our first acquisition under the new strategy, in December 2017, was Amplify Snack Brands, the maker of SkinnyPop ready-to-eat popcorn and Paqui spicy tortilla chips, which we bought out of private equity for \$1.6 billion. (Amplify also owned Tyrrells potato chips, which we have since sold off, and Oatmega bars, now discontinued.) Our second, in October 2018, was Pirate Brands, the maker of Pirate's Booty, Smart Puffs, and Original Tings, which B&G Foods sold to us for \$420 million. More recently we have added One Brands, which makes low-sugar, high-protein bars, for \$397 million, and in December 2021 we completed the acquisitions of Dot's Pretzels, the fastest-growing U.S. pretzel brand, and Pretzels Inc. for \$1.2 billion.

Over that time we have crafted a strong, repeatable process for M&A

Hershey

Founded: 1894

Headquarters: Hershey, Pennsylvania

No. of employees: 18,900



*Non-GAAP (excludes one-time costs)

Source: Hershey

that will continue to serve us well as we look for new brands to delight our customers. Beyond initial market and brand research, we have a robust due-diligence process that allows us to get to know a company while its leaders get to know us. A cross-functional commercial team joins our business development group as we start evaluations and enter into relationship building and negotiation. And if we do make a purchase, many of those managers stick with those brands through integration.

Our pitch to potential targets is simple: We are a purpose-driven company with a people-first culture and a century of expertise in building powerful snack brands, selling them across the United States and abroad, and delivering strong financial performance. We explain our vision, the power of our core business, our criteria for what can be a game-changing acquisition, and how their business will fit into our portfolio.

Then we lay out the numbers: what we think the target is worth now and what we think it can become as part of the Hershey fold.

As for integration, we bring in back-office functions, but we're very thoughtful about product development, sales, and marketing teams. Rather than laying off people, we typically add to the acquired company's employee base to help it grow. We ask ourselves what talent we need to take the business forward, and we staff appropriately. Culturally we have a lot in common with these companies already: passion for what we do, energy, desire for growth, and a strong sense of togetherness.

In the early days of our new strategy, we could see that some of our acquired companies tended to move faster and more nimbly than we did at Hershey. Today, as a result of learning and growing, we're operating at that more entrepreneurial pace. Our culture is now closer to that of the upstart brands we're buying, which makes it easier to bring the organizations together and ensure that the combined businesses remain on an accelerating upward trajectory.

EXERCISING ENTREPRENEURIAL MUSCLES

Indeed, our newfound adaptability, courage, and willingness to make bold bets have been tested not just in implementing our new strategy but also in responding to challenges created by the pandemic and recent world events. In 2020 sales of single-serve candy bars decreased as people retreated to their homes. Our response was to ramp up production of household-size

packages and build campaigns around outdoor barbecue desserts such as s'mores. Before Halloween season, many candymakers pulled back on production, expecting trick-or-treating to be a bust. We talked to consumers and realized that parents were desperate to create a safe outdoor event for their kids, so we leaned in for the holiday and greatly benefited from those sales in a difficult year. We're also experimenting with extending our core brands into new occasions—for example, we introduced Reese's snack cakes for people who want a midmorning sweet treat that isn't candy, and we're testing plant-based Hershey's bars for chocolate lovers seeking dairy alternatives.

We're now well on our way to transforming Hershey from an iconic confection company to a leading snacking powerhouse. We own three of the six fastest-growing U.S. snack brands. Savory and better-for-you products now account for 10% of our portfolio, up from 1% in 2016. Both our confectionery—including better-for-you options—and salty snacks businesses are currently growing by double digits each year, contributing significantly to overall company growth. We accomplished all this by setting a bold vision; developing a more agile, risk-taking culture with the help of key influencers; bolstering our core and international businesses; and then branching out into new and popular categories with well-vetted up-and-coming brands.

We're excited about what we make today and even more excited about the possibilities that lie ahead—for our customers, our retail partners, and our people. ☺

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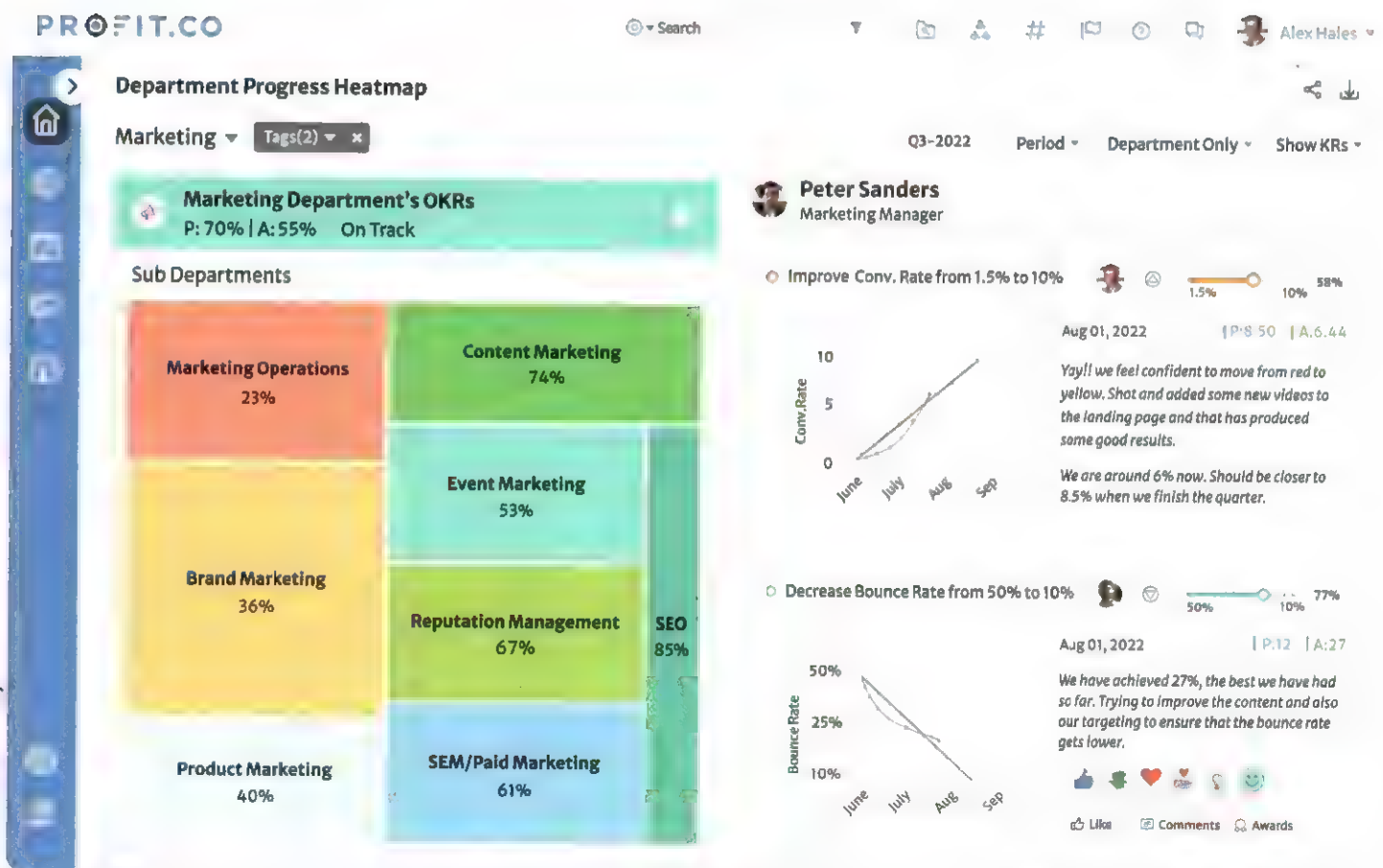
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Defining Your Organization's Values





Paul Ingram

Professor, Columbia Business School

Yoonjin Choi

Assistant professor, London Business School



Spotlight

What Does Your Company Really Stand For?

Align what matters to you as an organization with what matters to your employees.

FOR YEARS, AS scholars of organizational behavior and as corporate consultants, we've researched what you might think of as the value of values. We've conducted dozens of studies designed to determine how a clear understanding of individual and organizational values can affect decision-making, motivation, relationships, well-being, leadership, and performance.

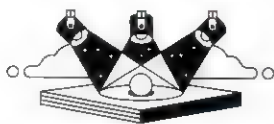
What we've discovered in this work is striking: When you align your organization's values with both your strategy and the values of your employees—creating what we call *values alignment*—you reap all sorts of benefits: higher job

satisfaction, lower turnover, better teamwork, more-effective communication, bigger contributions to the organization, more-productive negotiations, and, perhaps surprisingly, more diversity, equity, and inclusion. Our favorite finding involved the impact of values alignment on the turnover of chief operating officers. When we studied the divisions of one multiunit organization, we found that COOs whose values alignment was low needed a salary increase of 40% to become as likely to stay in their jobs as those whose values alignment was high. Imagine that: An increase in values alignment had as great an effect as a 40% raise.

The stakes for organizations to get it right on values have never been higher. For years cultural and economic changes—many of them brought about by new technologies—have forced companies to reassess what they value in their relationships with their employees, their customers, and even their societies. The global pandemic and a renewed sense of urgency relating to issues of social justice have recently galvanized those efforts. Across industries and sectors, companies have been forced to ask themselves, “What do we stand for?” and “What binds us to one another and to the community?”

In our work we've seen companies flounder when they can't answer those questions in ways that align their institutional values with both their strategy and the values of their employees. Coinbase, Netflix, Twitter, and Disney, for example, have all discovered, each in its own way, how hard it is to develop and pursue an organizational strategy when employees have come to believe that their values trump the organization's.

But companies also recognize that if they align themselves with their employees' values, they will substantially improve employee retention—which is vital at a time when unemployment is at a record low and they must fight for talent. The need for alignment will only grow as employees increasingly look for meaning at work and choose careers and jobs on that basis. Erika Irish Brown, the chief diversity, equity, and inclusion officer and the global head of talent at Citigroup, recently summed up the situation this way: “There are a lot of companies out there, and if you don't have values



Spotlight

alignment at one, you can find it at another."

The bottom line is simple: Values alignment is worth a lot. In this article we'll lay out a process to help you achieve it in your organization.

Values Versus Beliefs

To think clearly about the alignment of values, it's necessary to understand what values actually are—and are not. They are simply principles of evaluation: They determine whether a perceiver views something as good or bad or important. Values are not beliefs, and they are not strongly related to demographics such as race and gender.

Think of values as the ends you pursue, and of beliefs as the paths you perceive as leading to those ends. Consider two people who both value creativity. The first believes that it is achieved through quiet contemplation, and the second believes that it is achieved through interaction with others. They have the same goal but will pursue it very differently.

Because you can be wrong in your beliefs, you can improve them. One of the best ways to do that is by interacting

with others who have different beliefs. If the two people in that example got together to talk about creativity, one might persuade the other to change his or her belief about how best to achieve it, and that change would be experienced as learning.

That's not the case with values, however. If you're a mature person, your values are always right—for you. It makes no sense to think of "improving" them, because your values define what you mean by "improve."

Before we give advice on how to identify and clarify your organization's values, we want to warn you about some traps. We've increasingly seen leaders make one of two mistakes when they try to use values to build culture and drive performance.

The first is this: All too often leaders assume that if they continually recite their organization's values, the words will take on an incantatory power, and employees will fall under their spell, almost like zombies. We've come to think of this as the *values as magic* position. It was epitomized for us by what a leader at one global investment bank said when explaining how he communicates the bank's official values

to new employees: "I point to the list of the values, and I tell them that when you are within these four walls, you are no longer an individual. *These are your values.*"

That executive had a perfectly reasonable goal: He was trying to create a shared set of values that would foster a more ethical culture at his bank. But the bank has not come to be known for ethics, and the values he was pushing have not gained traction. That's not surprising, because the values-as-magic approach tends to have an alienating effect. No matter where people work, they don't want values imposed on them unilaterally, especially if those values don't align with their own. When that happens, they feel robbed of agency, and they become cynical—which (ironically for the bank) makes them start behaving less ethically.

The second mistake involves a different assumption: that working to develop shared values is antithetical to the goals of diversity, equity, and inclusion. But that's a faulty assumption. If you're pursuing a diversity of values in your organization, you're actually pursuing a diversity of *ends*, which means you're encouraging people to work at

IDEA IN BRIEF

THE SITUATION

Recent cultural and economic changes have compelled companies to reassess the values that drive their institutional strategies. Across industries and sectors they are urgently asking themselves what they stand for.

THE CHALLENGE

Companies are also realizing that they need to better understand and support the values of their employees. Many have discovered that when they can't align their institutional values with those of their employees, they flounder.

THE SOLUTION

In this article the authors provide a method for achieving values alignment by following a five-step process.

Then only the values as smoke screen idea and of beliefs
as the primary value is a hiring process

cross-purposes. It's much better to have employees all aim in the same direction, in pursuit of the same values.

Kris Beevers, the CEO of NS1, a cloud-computing company we've done values work with, likens this idea to a vector field—a concept from calculus that describes the combined influence of many independent forces. If the vectors in a field aim in different directions, they cancel one another out. The same holds true for values in an organization: If you want to achieve the benefits of diversity, you need to work toward alignment.

Leaders who don't recognize this often seek to banish all talk of "cultural fit"—which is a natural function of shared values—from hiring. We call this the *values as smoke screen* position, because it's tied to the idea that recruiters use talk of values to obscure the biased ways in which they actually make hiring decisions. We agree with Lauren Rivera of Northwestern's Kellogg School and others that organizations may sometimes hide bias in recruiting processes under the label of cultural fit—by, for example, privileging people with elite hobbies such as sailing and squash. But proponents of the values-as-smoke-screen idea take that observation too far and use it to justify completely disregarding the concept of cultural fit.

Organizational culture is at its heart made up of values and beliefs and the behavioral norms derived from them, and those are critical for organizational success. When "cultural fit" is taken as shorthand for similarity on organizationally irrelevant attributes such as leisure pursuits and interpersonal style,

then the organizationally *relevant* components of culture are compromised by association.

We first encountered the values-as-smoke-screen idea among thought leaders in the human resources space. One of them, the diversity consultant and researcher Bayo Adelaja, has described cultural fit as a "cop-out." When managers speak of hiring with cultural fit in mind, she argues, they're just being lazy and unwilling to do the work of inclusion.

Given the importance of culture to organizational performance, we never expected such an idea to gain much traction in the real world. But a few years ago, at a meeting of global HR directors, we learned just how wrong we were. The moment came when one of us, Paul, was on a panel discussing the future of work, during which a fellow panelist, the head of HR at a global industrial company, told the audience that his organization considered cultural fit to be a problematic goal for hiring. Why? Because, its leaders thought, it produces organizations that are clubby and exclusive rather than open and inclusive.

Others have made that argument more stridently. *Forbes* has published an article titled "The End of Culture Fit," and the *Huffington Post* has called cultural fit a "failed idea." Meta has gone so far as to ban the term from its hiring process. Google, for its part, shuns cultural fit in recruiting—but nonetheless invests heavily in finding job candidates with "Googliness," which, of course, is nothing more nor less than alignment around a set of core values.

The Values-Alignment Process

In our work with organizations we follow five steps to establish a foundation for values alignment. They should be taken sequentially.

1 Identify the individual values of all organization members. Our favorite method for doing this is to take as many employees as possible through a process that Paul devised. In it individuals identify their top values, work out the relationships among them, and produce what we call a *values structure*. It represents the eight values that are most significant for each individual and the interdependencies that person perceives among them. For example, someone might believe that pursuing excellence will help satisfy the value of achievement. This exercise, which we have used with thousands of leaders from around the world, can provide you with a rich and accurate understanding of what matters to your employees and will also help them understand themselves better.

One organization we have taken through the process of creating individual values structures is the Benton Museum of Art at Pomona College. In 2021 it opened a new building that more than tripled the space available to it—a boon, but one that compelled consideration of how best to deploy the much larger and custom-designed space. The Benton responded with a comprehensive yearlong review of its strategy and organizational values. As the museum's director, Victoria Sancho Lobis, put it, "I felt it was important to frame a strategy-development process with a

When you assess the values and states, any member of the organization whose input is significant to the organization's success should be invited to weigh in.

collective discussion of values, to help identify what calls us to museum work and what bonds us together as a group.”

In the first step of this work, the Benton's board, staff, leadership, and student interns worked with key stakeholders—among them the president of Pomona College, G. Gabrielle Starr; and Janet Inskip Benton, the museum's lead donor and a Pomona College trustee—to produce values structures. That allowed everybody to discover the values that were widely shared among the Benton's constituents, which included creativity, integrity, excellence, and joy. Those values were carried forward in the process of identifying the Benton's organizational values.

We have found that it takes 90 minutes or more to guide people through building a values structure. If you don't have that much time, you can still accomplish a lot by using an innovation of Yoonjin's: a simple and effective survey technique we applied in working with one e-commerce company. As part of that research, we asked employees a simple question: “Whom do you most value among your colleagues in the organization, and why?” The *why* is key, because it compels employees to articulate their personal view of the organization's values.

After hearing responses to that question, we were able to produce reliable estimates of who fit best in the organization's value system. We used those estimates to effectively predict employee performance.

2 Identify key priorities from strategy. This is the top-down part of the process. The crucial question

to ask here is “What is the most important thing the organization can do to achieve its strategy?” The answer will help you align your official values with your organization's mission. But make sure that this is the *second* step in the process. Why? Because those who adhere to the values-as-magic position emphasize this step to the exclusion of Step 1, choosing values that would serve their view of the strategy without bothering to ask what employees themselves value.

A senior executive who had spent most of his career at Goldman Sachs once told us that a week after he'd moved to a different bank (not the one that we mentioned earlier), he was asked to generate a list of organizational values for his new employer. The logic behind the request was that Goldman was a top-performing bank, known for having venerated values, and his new employer hoped to emulate parts of its strategy. As a Goldman veteran, the theory went, he must know what values lead to strategic success.

But Goldman's values worked for Goldman not only because they supported its strategy but also because they were held by its employees. Transplanting them to another bank would have been akin to doing a heart transplant without establishing tissue compatibility. Fortunately, the senior executive knew that getting values right requires a consideration of both strategy and employee values, so he declined to comply.

3 Look for values “candidates” that both serve the strategy and resonate with individuals. This

is an opportunity for you to engage in some creative ideation. The organizations we work with typically have a task force of employees who are working on this step, and ideally its members include representatives of various ranks along with senior leaders. At this stage we find it helpful to present the task force with a summary of key strategic priorities, as determined in Step 2, alongside the results of Step 1.

We then ask the task force to generate multiple candidates for value statements. These should resonate with employees and also be relevant to implementing the organization's strategy. Our research indicates that values alignment does not require exact matches; someone who identifies achievement as an individual value is likely to feel aligned with a similar organizational value—say, accomplishment. So you have some flexibility in creating your potential value statements.

We like to generate a lot of possible statements. When Paul recently conducted this process with the Guggenheim Museums, working with its values task force, they produced about 50. The task force selected 25 to share with the whole organization. The organization then hired a new chief culture officer, who added three values candidates of his own for Step 4.

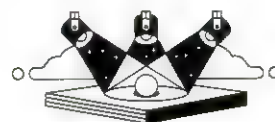
4 Assess the values candidates.

This is an opportunity to give everyone in the organization a voice. We recommend that you be as inclusive as possible—any member of the organization whose input is significant to its ultimate success should be invited to weigh in. The Guggenheim

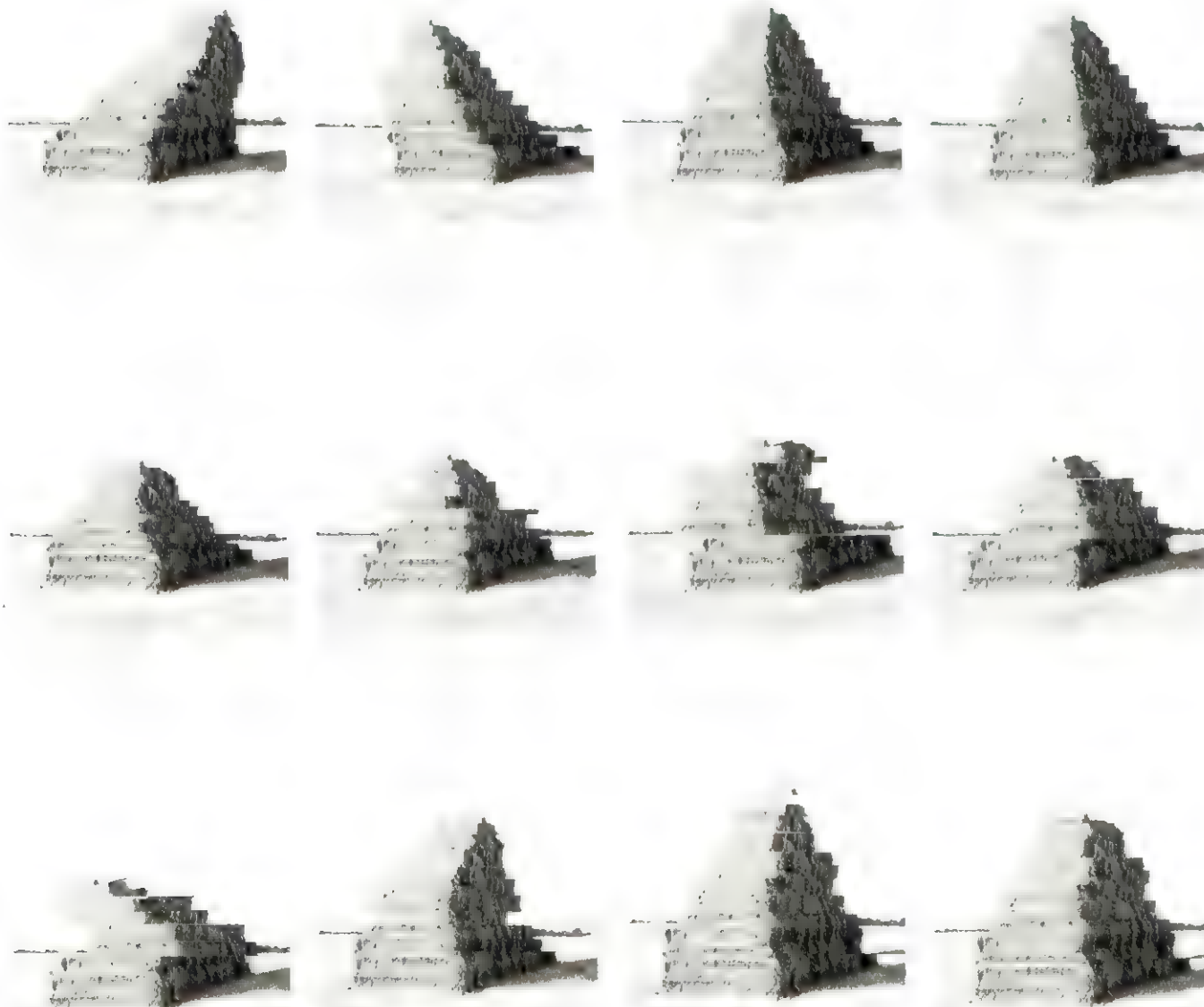


ABOUT THE ART

*In cutting up and rearranging his photographs in various ways, Emile Gostelie plays with the configurations and multitude of forms he discovers in his series *Laws of the Haystack**



Spotlight





Spotlight

Museums included contract workers, artists, and board members along with its regular employees.

Broad inclusion at this stage has two powerful advantages. First, it reveals which value statements resonate with the people who make up the organization. Second, inclusion creates commitment. As with any organizational decision, employees and others are more likely to support something if their input has been honestly considered beforehand.

Some leaders find it scary to think of inviting the whole company to evaluate and determine something as important as values. But we tell them that they'll always be better off knowing rather than not knowing how people feel about the question of values.

We also emphasize that at this stage leaders should make clear that they're offering everybody "a voice, not a vote." They will carefully consider all feedback in determining the organization's values, but they cannot promise that any value, no matter how popular, will become official.

To solicit and integrate assessments of values candidates, we use a collective-intelligence engine called All Our Ideas, which presents pairs of values and asks respondents to indicate which of each pair is better—that is, "more true, more useful"—for the organization. After each choice has been made, a new pair appears. As the choices are made, the engine converts them into a ranking. Clearly, other methods can be used: For example, employees can be invited to rank all the values candidates according to their preference, or to identify the five they like best.

5 Edit the top-ranking candidates to generate a final set of organizational values.

This is work for a small team, which should include leadership, because substantive judgments are sometimes required. Consider what happened in 2019 when Paul worked on this stage of the process with the education department at New York's Museum of Modern Art (MOMA). During Step 3 a politically charged value statement had emerged—"Radicality: Rooting art in collective acts of learning"—and a lot of people had endorsed it in Step 4. But was it wise for MOMA to establish *radicality* as an organizational value?

In the end the institution's leaders decided to retain the value but to tie it more naturally to MOMA's mission by wording it as "Radicality: Challenge norms. Embrace questioning. Think anew." That was an elegant resolution, because it honored the staff's endorsement of radicality but maintained alignment with the more-conservative values of other stakeholders, such as respecting visitors and working through existing relationships. "Embrace questioning" and "think anew" are hard to object to.

Real-World Results

How does values alignment create superior organizational performance? Consider New York-Presbyterian (NYP) Hospital, one of the top-ranked and most comprehensive integrated academic health-care systems in the United States.

In 2011, when Steven Corwin became the CEO of NYP, which has almost 50,000 employees and affiliated physicians, he wanted to understand the organization from the perspective

of its employees. But he knew that if he simply asked what they thought and felt about it, they'd probably tell him only what they believed he wanted to hear.

So, taking a page from Shakespeare's *Henry V*, Corwin went on his mission in disguise. He dressed as a custodian and set about cleaning hospital rooms. In that role he felt unseen—by patients, doctors, nurses, and other employees—which undermined any feeling of inclusion in the organization and thus his commitment to it, sapping his motivation to do good work.

That experience helped Corwin recognize just how painful and marginalizing it is for employees at any level to feel invisible or excluded. What it all came down to, he realized, was *respect*—which, he would subsequently learn, was a leading individual value of NYP's employees. To achieve alignment on that front, he launched a campaign to promote respect as an organizational value. Today it's first on the list of NYP's four values, which also includes quality, integrity, and teamwork.

During the past five years Paul has worked with hundreds of NYP employees to produce their individual values structures. Organizational values aren't discussed; participants are simply asked, "What values are most important to *you*?" Year after year, their top answer has been "respect." This is an ideal example of alignment between organizational and individual values. When it's achieved, organizational values serve as a beacon to attract employees and can fuel collaboration and motivation. Those values remind employees of their best selves and improve their performance and well-being.



ABOUT THE ART

In his series *Mapworks* the artist Chris Kenny transforms cut map fragments and found materials into three dimensional collages and sculptures

That's what happened in the spring of 2020, when NYP found itself at the epicenter of the Covid-19 pandemic. No hospital in the city of New York escaped unharmed during that shocking spring, but NYP fared better than most. According to many at the hospital, that was because the whole staff got daily briefings, usually delivered by Laura Forese, the hospital's COO. Employees on the front lines have told us that her briefings made them feel seen and served as a reminder that senior leaders were right there working alongside them in the building. Everybody's values were in sync.

THE LESSON OF this story is simple and clear: When properly aligned, values are powerful. They serve your strategy and provide your employees with authentic connections, and in so doing they create a foundation for better group performance and higher personal satisfaction. But values are not magic. They don't become real or effective just because you announce them to your organization in a town hall meeting or etch them into marble at HQ. If you want to enjoy their benefits, you need to work with everybody in your organization to identify and align them. That requires the kind of careful attention and hard work that we've described in this article. We can assure you that it's worth it. © **HBReprint S22061**



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Strategy in a Hyperpolitical World

How to make smart choices when values clash



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LMOST EVERYTHING ABOUT business today is political, in the sense that it requires consideration of a wide range of often controversial ethical, social, and ecological issues. Choices that may have been clear-cut in purely economic terms—such as what business to be in, where to do business, whom to do business with, and even how to price goods or hire and promote employees—can now easily become complicated by politics.

The assumption that business and politics can and even should be separate is no longer realistic—especially where values, identity, and security are concerned.

The stakes for skillfully managing this situation are higher than ever. When Delta stopped offering discounts to NRA members following a 2018 school shooting in Florida, it was threatened with the withdrawal of fuel subsidies in Georgia. When Disney spoke up on LGBTQ+ rights in Florida, it lost its special governance status and rights in the state. When H&M voiced concerns about cotton sourcing and human rights in China, its revenues in that country plummeted. When the Ukraine crisis broke, McDonald's was forced to exit the business it had painstakingly built in Russia over a 30-year period.

The assumption that business and politics can and even should be separate is no longer realistic—especially where values, identity, and security are concerned. And these days it's not enough to attempt to defuse political issues when they arise by relying on messaging from the corporate affairs department.

What has changed?

Technology has created a new degree of transparency. Companies can no longer manage political tensions by talking and behaving differently to different audiences at different times. In an age when people "bowl alone," the workplace has become the main vehicle for socialization and self-expression. As employees seek to express their identities and beliefs at work, they increasingly expect that their companies will support the issues they care about. It is notable that many CEOs who have taken a stance on social issues say the impetus was that their employees expected and lobbied for it.

At the same time, societies have become more divided, both in opinion

and in substance. Inequalities of wealth and income are now more obvious in many countries, generating differences of interest and opinion that are rapidly picked up and amplified on social media. And as economic integration across societies with very different political models, religious beliefs, and values has intensified, new fault lines have appeared, especially between the established nations of the OECD and rising powers such as China.

For business, the result is a web of often conflicting political issues. Backlash can come from a variety of stakeholders. At Google, for example, employees protested the company's proposed censor-friendly Chinese search engine. At H&M the company's Chinese customers opposed its environmental stance. And the backlash may be felt at home for action abroad (Google), abroad for appeals to home values (H&M), or at home for actions that simultaneously appeal to some and inflame others (Delta and Disney).

So what does that mean for strategy?

We define strategy as the art of making informed choices in a competitive environment. Choices are important when differing paths lead to differential risks and rewards. When the social environment is broadly favorable to business, a company's strategic choices can be justified in purely business terms or, as necessary, finessed with carefully crafted press releases. Today, however, choices must be made on an expanded playing field. They are often complex because the underlying ethical, social, and political issues are constantly evolving and defy simple analysis. To make and implement the best strategic

choices in this environment, leaders will have to (1) develop robust principles to guide strategic choices, (2) address ethical issues early, (3) consistently communicate and implement their choices, (4) engage beyond the industry to shape the context, and (5) learn from mistakes to make better choices in the future.

Let's examine what those actions involve.

Develop Robust Principles

The aspects of business that can become politicized, and the ways in which that can occur, are so numerous that you can't foresee every challenge. Even some companies that invest in scenario planning failed to predict the Russian invasion of Ukraine. But you should try to anticipate the challenges that are most likely to touch your operations and devise principles that will address them.

Such principles are especially helpful for navigating ethical and political issues that, unlike analytic questions in finance or marketing, are often nuanced and cannot be easily quantified. It was not possible to quantify either the anger of Disney employees over Florida legislation limiting discussion of LGBTQ+ issues in schools (known as the "Don't Say Gay" bill) or the hostility of Florida's Republican governor, Ron DeSantis, in response to Disney's statement on the issue.

Moreover, unique solutions can rarely be deduced for ethical issues, which always involve a judgment call. If your values haven't been codified in a set of principles, it is impossible to choose a reasonable course of action



from the facts of the situation alone. What's more, the most complex issues are almost always the most controversial and divisive ones—within a company as well as in the outside world. Having well-thought-through and agreed-upon principles can help minimize the undue politicization and emotional polarization of discussions within the company.

Those principles must be comprehensive enough to apply across the major sources of political tension to which a company is likely to be exposed. For example, they should be appropriate in all jurisdictions, not just straightforward and familiar ones. They should be clear enough to guide choices. "Never commit or condone bribery" is simple and clear. "Do no evil" and "Contribute to societal well-being" are not. And principles should be tangible enough to determine whether they have been applied or not. Tesla's commitment to open-sourcing its patents in the interest of a "common, rapidly evolving technology platform" to fight climate change can be audited easily and objectively.

To develop such principles, the first step is understanding the salient social and political issues for your company. The second step is envisioning where and how those issues might intersect with your business and the choices that they imply. The third step is hearing and understanding the opinions of your employees on those issues—because, as we've noted, they are often the reason that companies take a position on political issues.

Once they've considered these factors, companies can articulate the principles that will guide their choices about where and how to do business.

The principles can be tested by predicting where they might realistically prevent you from doing something and what the resulting costs would be over different time periods.

Consider Starbucks, which operates 34,000 stores worldwide in 83 markets and accounts for more than 3% of the global coffee trade. Its segments include at-home coffee, ready-to-drink, and food service channels. Although the company's scale is monumental, its sourcing is localized, encompassing 400,000 farmers in 30 countries across Central America, South America, Africa, and Southeast Asia. In sourcing its beans, Starbucks makes countless business decisions, including which farms to work with, what environmental standards and labor practices to set, how to pay farmers, and what benefits to provide to their communities.

Historically, market forces drove such decisions, but Starbucks and its competitors came under increasing pressure to consider other factors in their sourcing activities. So in 2004 Starbucks decided to codify its commitment to ethical sourcing standards, becoming the first in the coffee industry to do so. The company collaborated with Conservation International to develop the Coffee and Farmer Equity (C.A.F.E.) Practices, which set economic, social, and environmental standards for its sourcing program.

The principles in C.A.F.E., such as "Permanent and temporary/seasonal workers must be paid at least the nationally or regionally established minimum legal wage on a regular basis," are clear, values-informed, and achievable. Each principle comes with

explicit policies for enforcement, and a third party monitors farm verification and adherence, flagging shortfalls when they occur. By proactively establishing C.A.F.E. and moving swiftly to correct noncompliance, Starbucks motivated its supplier network to improve practices and transformed reports of abuse from potential public catastrophes into evidence of its commitments writ large.

New principles will serve to guide future business decisions and may very well require immediate changes to company operations if they conflict with prior ones. A commitment to them means that the company will make the principled rather than the commercially expedient choice when required. To be sure, predicting the future perfectly is not possible. But investing in the thought process can reduce the incidence of unanticipated issues and rushed ad hoc decisions.

Address Ethical Issues Early

Just as a company assesses where to operate on the basis of markets' potential attractiveness, evolving trends, and expected competitors' moves, it now also needs to anticipate, preempt, and shape nascent ethical challenges. That may require a high degree of creative problem-solving, but it often garners outsize public goodwill and strategic advantages for early movers. Once an issue has become front-page news, political camps will be entrenched, and the company's room for maneuver will be limited.

Anticipating and shaping ethical challenges requires a delicate balancing act. Individual companies may be



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able to move earlier and with greater control, but eventually complex issues may necessitate collective action, often initiated by a market leader. Sometimes a combination of collective and individual initiatives can build momentum, influence the issue, and offer advantages of differentiation for the initiator.

In the early 2000s the diamond-mining giant De Beers, like other leaders in its industry, faced a potentially existential crisis. Human rights groups were sounding the alarm on “conflict diamonds”—stones sourced from rebel-controlled regions where they were often mined using inhumane practices or slave labor, with the proceeds going to finance brutal wars. Although they accounted for less than 5% of the world’s supply of diamonds and were recovered from countries other than those where De Beers mined, these “blood diamonds” had the potential to tarnish the reputation of the entire industry, erode consumer confidence, and result in a full-scale boycott.

The moral imperative and the business imperative were both clear. De Beers moved swiftly to communicate how it would ensure that it sourced and sold only conflict-free diamonds. But the long value chain from mine to finger and a sophisticated smuggling network presented the risk that illicit diamonds would enter the global supply chain. Safeguarding the industry and ensuring customer confidence would require unique solutions.

De Beers worked with others in the industry and with the UN to establish the Kimberley Process for international certification of conflict-free diamonds. But De Beers went further: It

developed a more comprehensive suite of standards—its Best Practice Principles—to address a range of supply chain risks and differentiated itself strategically as “best in industry” for diamond provenance. That involved actions such as limiting diamond sourcing to company-owned mines and developing Tracr, the world’s only distributed diamond blockchain, to provide an immutable record of a gem’s provenance. This solution, first implemented in 2018, uses artificial intelligence, the internet of things, and advanced security and privacy technologies to enable De Beers to provide assurance not only of a diamond’s origins but also of the company’s positive impact on the people and places involved in its supply chain (supported by its Building Forever sustainability framework).

De Beers is again leveraging its position to protect the industry and reinforce its brand by spearheading a campaign to expand the definition of conflict diamonds, thus extending the scope of the Kimberley Process, and to cover a wider range of supply chain risks. Meanwhile, it is using Tracr to provide provenance information to the many customers who seek additional assurance in light of sanctions on diamonds from Russia.

Consistently Communicate and Implement Choices

Principles will often collide with reality in either the day-to-day operations or the future planning of an organization and should therefore be communicated to and understood by all employees.



Because they will influence the expectations of stakeholders outside the company, they should also be publicly transparent.

However, leaders should not use a megaphone to communicate. The aim is not to provoke, confront, or embarrass but, rather, to convey what guides the company's decision-making and to reduce future disconnects and surprises. Disney did itself no favors by using a megaphone in its tussle with DeSantis. Its strong statement may have appealed to Disney employees, but it acted as a dramatic provocation for the governor.

Principles are credible only if they are consistently applied. So they must be part of the everyday making of business decisions, not simply called up in response to pressure after a situation has exploded. Navigating the political dimensions of business is hard enough without also having to explain and remedy inconsistent communication or application. And principles that mainly inform communications but not action will not be credible over time or effective in navigating risk.

In applying a company's principles, the aim should not be to judge stakeholders and situations at arm's length. Rather, it should be to engage with and solve issues preemptively and collaboratively whenever possible. A company standing against corruption will have a greater impact if it works with other stakeholders to address that issue and improve the context—even if, at the end of the day, a decision about whether to stay in the business in question or exit it is required.

Since exit or disengagement is by design a possible outcome, orderly exit

options should be prepared for, along with clear communication regarding why the company is stepping away. There should always be a plan B for when principles are breached. And exiting is not necessarily inconsistent with continuing to work collaboratively on an underlying issue or with reengaging when the situation has improved.

CVS Health, which includes the U.S. pharmacy chain CVS, provides a good example of getting communication and implementation right. Historically, chains like CVS, Walgreens, and Rite Aid have been community resources: Local residents use them to pick up not only medications but also household essentials—toilet tissue, detergent, stationery—and even cigarettes and alcohol in some places. Over the past decade, however, they have increasingly served as health care providers—administering flu shots, providing basic care, monitoring for chronic conditions, and more. As the chains' health services proliferated, harmful tobacco products sitting on the shelf grew more conspicuous, pitting corporate principles against the bottom line—an opportunity ripe for public outrage.

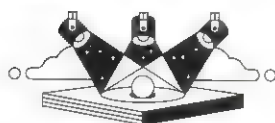
In February 2014 CVS became the first national pharmacy chain to address this conflict by ending the sale of tobacco products—a decision that would result in an annual revenue loss of \$2 billion. But for the company's leaders, removing tobacco was an imperative beyond sales: It was essential to enacting their public principles consistently.

CVS's key competitors took partial measures—raising the minimum age to buy tobacco products to 21 but

continuing to sell them—and faced increasing public scrutiny as a result. CVS avoided that scrutiny and used its action as a catalyst for the successful transformation into a health care company. In September 2014 CVS rebranded as CVS Health; in 2018 it acquired Aetna; and throughout the pandemic it stepped up as a key access point for Covid-19 testing and vaccines. The company's president and CEO, Karen S. Lynch, says, "We have rebuilt and continue to rebuild ourselves as a health care company with a clear purpose of 'Bringing our heart to every moment of your health.'"

Engage Beyond the Industry

There are limits to the power that companies can exercise individually or even in cooperation with competitors, and they will often need to work with civil society and government on the hardest and most deeply entrenched issues to effect change. Therefore they should actively participate in existing solution forums and where necessary help create new ones. The costly alternative is accepting the unpredictability of an endless series of ad hoc responses or having regulation forced on the industry owing to insufficient impact from their own efforts. And there are important new issues around which to build consensus. Applications of AI are a case in point. Over the past decade AI hiring algorithms have become ubiquitous: Now 99% of *Fortune* 500 companies rely on software to sift through job applicants, and 55% of HR leaders in the United States use predictive algorithms in the hiring process.



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But controversy has surrounded the rise of AI-based hiring systems, as a lack of external regulation and limited industry-driven standards have allowed them to introduce bias and produce discriminatory outcomes. After all, algorithms reflect the intentions and biases of their architects and the data used to train them. Without careful design and transparency about outcomes, they can become a major source of friction.

In the face of this nascent political issue, Pymetrics, a vendor of algorithm-based hiring software, has sought to change the industry from the inside and preemptively lobbied to bring about regulation. In November 2021 Pymetrics banded together with other software vendors, civil society groups, and corporate users of the software and worked with the city of New York to pass the first law in the nation setting standards for the unbiased use of AI in hiring. In the view of Frida Polli, the CEO of Pymetrics, shaping the discussion and self-regulating were essential for the health of the industry and her own company: "Consumers are losing faith in tech, and there is a real threat of others' imposing legislation if we don't act to bring it about ourselves. Everyone, our company included, loses when tech perpetuates bias."

Learn from Mistakes

Even if you have the best intentions and analysis, political and social issues are intrinsically complex and unpredictable, making surprises and missteps inevitable. When they occur, it's important to extract and incorporate lessons and leverage crises to good effect. In our

discussions with company executives, we found that some of the most devoted saints were reformed sinners whose transformations had been catalyzed by public scandal.

For the electrical-engineering giant Siemens, the watershed moment came when an international investigation revealed that the company had paid \$1.4 billion in bribes to government officials in Asia, Africa, Europe, the Middle East, and the Americas over several decades. Siemens was brought to account and faced intense public criticism. But it used that moment as the impetus for initiating sweeping internal change.

Siemens began by cleaning house: It hired the company's first-ever external CEO, Peter Löscher, who, within months of taking over, had replaced about 80% of the top level of executives, 70% of the next level down, and 40% of the level below that. Next, it made earnest and long-term commitments to atone for its past actions: It has supported government investigations and set up the global Siemens Integrity Initiative to fund collective action to reduce corruption, which has allowed the company to continue to bid for government contracts. As of July 2021 the initiative's portfolio included 85 projects in more than 50 countries with funding of nearly \$120 million committed.

Finally, and most important, Siemens used the scandal to transform its culture and increase its nimbleness. In Löscher's words, "Never miss the opportunities that come from a good crisis—and we certainly didn't miss ours. The scandal created a sense of urgency without which change would have been much more difficult to achieve." He

and his team refocused the business, removed management layers, and altered how the managing board made decisions, thereby resetting the system of control that had enabled the scandal while repositioning the company for market success. (For details, see "The CEO of Siemens on Using a Scandal to Drive Change," HBR, November 2012.)

WE ANTICIPATE THAT with the continued rise of China, instability on Europe's doorstep, and escalating economic and social polarization, the intersection of politics and business will become more fraught. It is time to accept and embrace politics as part of strategic choice and to build the tools and capabilities required to do so. But CEOs must not confuse themselves with politicians or moral watchdogs. Instead they must focus on what is within their purview, albeit in a new context. They must steward the credibility, trustworthiness, and vitality of their enterprises by appreciating the broader and longer-term forces at work in their environment. And they must use what they learn about those forces to make informed choices, to communicate and implement them consistently, and to proactively engage with other actors to shape the context in which they do business. © HBR Reprint S22062

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To See the Way Forward, Look Back

Revisiting your founding ideals can help sharpen your purpose and values.



AUTHOR

Ranjay Gulati

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MOST BUSINESS LEADERS focus on the future much more than they do on the past. With industries and economies changing so

rapidly, executives believe that their job is to embrace disruption and innovation, transform their organizations, and explore new frontiers—not maintain the status quo. Management experts encourage such views, often regarding the past as a hindrance to innovation.

However, decades of research into companies around the world has taught me that corporate history can be a strategic and motivational resource. Treated as a reference point for thought

To use the past as a pathway to the future, leaders must first excavate the company's early history, arriving at a deep understanding of how and why it came to be.

and action, it can actually drive progress in a way that provides continuity and offers stakeholders a sense of identity, pride, and responsibility as custodians of a legacy. Organizations that understand these benefits can look back at and pay homage to their histories even as they strive to move forward and beyond them.

As Sierk Ybema, a professor of organization studies at VU Amsterdam, points out, steeping yourself in history doesn't mean taking a purely nostalgic view of your corporate past, leaving it cloaked in a rosy glow. Nor does it mean taking what Ybema calls a *postalgic* perspective, one that dismisses traditional organizational ideas and practices as outdated. Rather, you should challenge yourself to straddle both points of view. When you acknowledge your company's complex history and ponder its conflicting themes, you generate more nuanced and refined thinking and uncover opportunities to leverage the past to push the business forward.

When explaining this idea to CEOs and their teams, I often refer to the Sankofa, a mythical bird from Ghanaian folklore that is typically portrayed as twisting its head backward to secure a precious egg while keeping its feet facing forward. Indeed, the word *sankofa* (which comes to us from the Akan tribe) can be translated as "go back to the past and bring forward that which is useful."

I've studied corporations—from Carlsberg and Lego to Bühler and Johnson & Johnson—that have oriented themselves similarly. They cultivated a keener understanding of their founding ethos and spirit and used that

knowledge to articulate a modern-day mission and values that employees, customers, strategic partners, and investors have rallied around. At best they were able to create a sense of sacredness that bound stakeholders together in pursuit of an aspirational future, forming what the sociologist Emile Durkheim referred to as a moral community. They discovered a guiding light to help them break free of established practices and chart a new path, especially in times of crisis.

In studying leaders and companies that have accomplished this, I have identified four steps that others can follow to do the same for their organizations. The first is to conduct a thorough historical audit, teasing out those elements from the past that should be held dear and crystallizing them into a purpose and values while simultaneously identifying what shouldn't be retained or repeated. The second step is to translate the past into future-oriented action, using the purpose to inspire strategies, policies, and operational decisions that remain true to your company's essence while positioning it for future success. The third is to galvanize the organization around those efforts by clarifying everyone's role in maintaining or changing organizational history and legend. And the fourth is to sustain this progress by continually reexamining, reinterpreting, and deepening the company's connection to its history.

Uncover the Sacred in the Past

To use the past as a pathway to the future, leaders must first excavate the company's early history, arriving at a deep understanding of how and why

it came to be. As the organizational theorist Majken Schultz of Copenhagen Business School and colleagues suggest, that excavation can include various subprocesses, such as discovering key elements of the past, assessing or interpreting it in the new context of the present, and reclaiming it as "authentic" for use by the company. The goal is to grasp the very essence, or "soul," of the organization as best one can—not just the founding ideals, ambitions, and purpose that animated stakeholders, but also the values that informed that early thinking and the principles or heuristics that drove day-to-day decision-making. Many of today's largest and most celebrated companies are quite young, so for them excavating history might not be onerous. But at companies whose roots stretch back to the mid 20th century or earlier, leaders will have some digging to do.

For two years in the 2000s, Jørgen Vig Knudstorp, then the CEO of the Lego Group, delved deep into the then-70-year-old company's archives, studied the life of its founder, Ole Kirk Christiansen, and met with long-serving employees. Those efforts gave him a better understanding of Lego's early mission of helping children engage in "good play" that would facilitate learning and intellectual growth. He also zeroed in on a principle that had successfully guided the company's initial operations but in later years encouraged an unproductive tendency toward perfectionist overengineering: "Only the best is good enough." Knudstorp realized that the purpose of activating kids' development through play endured. But "only the best" thinking would have to shift toward a

continual pursuit of excellence—from an excessive and harmful focus on the details to a more holistic view of high performance that would most benefit Lego's end users. This work led to a dramatic turnaround in the company's fortunes: Revenues and net profits more than doubled from 2010 to 2019, while the company established itself as one of the most reputable global brands.

Carlsberg, a brewing company founded in 1847, embarked on a similar journey during the 1990s and 2000s. A motto from its early history—“*Semper ardens*,” or “Always burning”—became the name of and inspiration for a new line of beer, and artifacts from the corporate archives were used to market it. Later the Latin phrase became the basis for the company's corporate identity, which some executives referred to as its driving purpose. A 2010 statement read: “We never settle but always thirst for the better....With the courage to dare, to try, to take risks, we constantly raise the bar. We don't stop at brewing great beer. We brew a greater future.” Like the Sankofa, this statement is both backward- and forward-looking. Further, it explicitly combines longing for the past (nostalgia) with awareness of the need for novelty, innovation, and risk-taking in the interest of progress (postalgia). In the years since 2010 Carlsberg has shown strong sales and financial performance.

Use It to Drive Future-Oriented Action

Once you've sifted through the past to determine what should be embraced or eschewed, the next step is to put that thinking into action by identifying areas

where your organization might strategically extend or build on its history and other areas where it might profitably diverge and chart a different path. In these efforts leaders must prioritize honesty and transparency. They must celebrate and collaborate around the good while acknowledging and moving on from the bad, rather than just trying to bury it. In this way leaders can help their companies join the ranks of organizations that in recent years have come to grips with historical transgressions, such as those related to the Holocaust or slavery.

There are no all-purpose directions for translating the historical excavation you've done into action focused on the future. Instead the best of the past becomes a source of inspiration and guidance, a compass rather than a map. To pull this off, leaders should strive to understand the business intent embedded in their company's original purpose and values and how it translated into a logic that founders and early employees used in their strategizing and decision-making. They should then follow the same logic.

Knudstorp, for instance, says that he sought to return to Lego's roots with “a modern-day interpretation” that might depart from tradition in the specifics. A group called the Concept Lab was charged with creating entirely new products that were, as one Lego executive put it, “obviously Lego—but never seen before.” Another group focused on developing new business models and—drawing on the inspiration of a fan—created the Lego Architecture product line: models of famous landmarks, such as the Taj Mahal and the Space

Needle, marketed not to children but to adults.

In some cases leaders may consciously distance themselves from big parts of their organizational past. When Dara Khosrowshahi became CEO of the scandal-plagued Uber, in 2017, he wanted to move the company away from the aggressive, transgressive, “tech bro” culture that its controversial founder, Travis Kalanick, had promoted. Khosrowshahi promulgated new values, including “We do the right thing. Period.” To make good on that promise, he took a number of actions, improving rider and driver safety measures, ending forced arbitration of sexual harassment claims, and bringing on a prominent #MeToo activist as a consultant.

At the same time, he didn't seek to eradicate Uber's ethos of intense competitiveness and willingness to question existing norms. Instead he channeled it in more-positive ways. Uber's current mission statement, for instance, still evokes boldness, brashness, and impatience with the status quo, but it connects those qualities with a purpose. It describes employees as “go-getters” and “the kind of people who are relentless about our mission to help people go anywhere and get anything and earn their way.”

Although the company's cultural transformation is ongoing, Uber has seen improvements in employee diversity, with the number of women in leadership roles increasing by more than 11% from 2017 to 2021. The company found in its 2022 *People and Culture Report* that 80% of employees “believe their personal values align with Uber's values and culture.”



Unite Your Community

Religious and political leaders commonly draw on the past to align stakeholders with a new and improved vision, showing them the role they play in not just carrying on but also improving the traditions of an enduring moral community. My research has shown that corporate executives can similarly present modern-day ambitions and plans as the continuation of a communal quest to realize the company's founding ideals. In their hands the past lends authenticity to the company's

current and future endeavors, in a process that some scholars call *organizational historicizing*.

As it embarked on changes to its strategy and organization, Lego created a museum in its founder's home to showcase Lego products over time, making the company's history, ongoing purpose, and values tangible for stakeholders. Other companies have evoked a sense of tradition and forward progress by resurrecting products that are iconic or embody founding principles: Volkswagen's redesign of its Beetle,

for example, and the reintroduction of classic menu items at McDonald's. When you launch a transformation while also celebrating an organization's history, you don't just preempt nay-saying traditionalists who resist all change. You also give forward-looking, change-embracing stakeholders a sense of context and constraints. In the end everyone begins to feel connected to both the past and the future and keen to responsibly but creatively carry on the legacy.

CEOs, in particular, can use their bully pulpits to make this happen.



ABOUT THE ART

The Italian photographer Massimo Listri creates large-scale photographs of grand and elaborate interiors, including libraries, cathedrals, and theaters. Opening page: the Archivio di Stato in Vienna, facing page: Rome's Biblioteca Vallicelliana



During his first year at the helm of Microsoft, for example, Satya Nadella said that the software maker should “reimagine a lot of what we have done in the past for a mobile and cloud-first world, and do new things” while also framing this innovation as a rediscovery of Microsoft’s “soul—our unique core,” which is “founded on the belief that technology can create opportunities for people to express and achieve their dreams.” In this way he rallied employees around a new strategy, making them feel that they were part of something transcendent. From 2014 to 2022 Microsoft’s revenues soared from \$87 billion to \$198 billion while its market capitalization rose from about \$296 billion to roughly \$2 trillion.

Stay Connected

Maintaining a connection to the past in a way that inspires action and sustains a sense of legacy is an ongoing task. New events and an ever-changing context require periodic revisits to an organization’s history, and the best leaders treat those as opportunities to spark renewed dialogue with an eye to both refining their companies’ purpose and values and driving progress.

When the privately held Swiss food and mobility equipment firm Bühler approached its 150th anniversary, in 2010, its chairman, Urs Bühler, asked its CEO, Calvin Grieder, to forgo a nostalgic look back and instead focus on contemplating the organization’s next century and a half. Grieder and his team complied but kept Bühler’s core values and business intent in mind as they planned the future. That led

the company to adopt a new purpose of “innovation for a better world,” with an emphasis on environmental sustainability, even as it perpetuated its historical focus on delivering both commercial and social benefits. Over the decade that followed, Bühler modernized its production methods, adopted a goal of helping its customers slash their water and energy consumption and their waste by 50%, and pushed other industry stakeholders toward eco-friendly innovation with its Networking Days conferences, where it called upon industry members to work together to achieve progress.

Johnson & Johnson, the pharmaceutical company, is another organization that has continually revisited its founding credo—always put customers first—as a way of ensuring that it will be not an empty slogan but a principle that informs the company’s actions at all times. During formal sessions in the 1970s, leaders explored, adapted, and then recommitted to the credo, which helped J&J quickly and decisively respond when someone laced bottles of Tylenol with cyanide, resulting in the deaths of seven people in 1982. J&J immediately recalled 31 million bottles, cutting into its short-term profits but cementing its reputation as a customer-first company.

Subsequently, however, attention to the company’s founding principles and values waned, and the 1990s saw a decade of underperformance. That prompted a new CEO, Alex Gorsky (now the executive chairman), to again return to the credo, challenging and updating it to ensure its continuing relevance. In 2013 the company celebrated

the credo’s 70th anniversary by convening its board and business heads to review and assess J&J’s mission and values. Four years later focus groups of employees had their say, suggesting further updates. As a result of those efforts, the company essentially kept the credo in place but tweaked it to emphasize themes such as diversity and a larger global health mission.

ONLY BY CONTINUALLY engaging with the past and translating it anew can companies remain, as Gorsky observed, “both timely and timeless.”

Tempting as it might be to ignore the past when pursuing transformation or growth, companies would do well to look to their history as a way to propel them on a purpose-driven path forward. They must derive inspiration, guidance, and energy from it while also assessing it critically and figuring out where to build on it or move on toward novelty and innovation.


Our companies soar when we cultivate a sense of legacy that inspires everybody to pull together to reach a lofty goal. For that we must link the present to the future, pursuing our latest aspirations while remaining in touch with what’s good about our organizational heritage and soul. Let us all tap into the profound wisdom conveyed by the Sankofa. 🍷

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RANJAY GULATI is the Paul R. Lawrence MBA Class of 1942 Professor of Business Administration at Harvard Business School and the author of *Deep Purpose: The Heart and Soul of High-Performance Companies* (2022)



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The Ideas That Inspire Us



Harvard Business Review published its first issue 100 years ago with a mission to help leaders put the world's best management thinking into practice. To mark our centennial, we asked eight current and former CEOs from some of the world's top companies to describe the ideas that have propelled their own careers and organizations. Two themes emerged: first, the need for constant innovation and out-of-the-box think-

ing as markets become more dynamic; second, the importance of purpose and a vision that encompasses all stakeholders. We look forward to many more decades of helping leaders build a better future for customers, employees, partners, and communities.





Stéphane Bancel

CEO / MODERNA



PLANNING FROM THE FUTURE BACK

MOST PEOPLE THINK about the future of business from the present onward. As humans we have a natural inclination to think linearly. However, this approach limits our creativity and inhibits our ability to achieve what was previously unimaginable.

Consider a better alternative. By thinking five to 10 years out and then

“playing the movie backward,” you free yourself from the constraints of what is possible now. You can envision year 10 and then figure out what has to happen in year nine, year eight, and so on for the vision to become reality.

I used this approach as the founding CEO of Moderna in 2011. As a start-up, we had no past to anchor to, so it was natural to think big about where the company wanted to be in the next decade and plan backward from there. We made sure that all our stakeholders were aligned on our vision and gave people time to engage intellectually and emotionally with the path toward our goals.

In the early years, this way of thinking allowed us to successfully

build robotics for preclinical research. Our aim was to industrialize Moderna’s ability to make mRNAs, or messenger RNAs, which teach human cells how to make a protein that triggers an immune response. We started by thinking about how many mRNAs we would need to produce (thousands) and with what turnaround time to enable scientists to rapidly experiment and learn (three years). We then worked backward to understand what needed to happen when, without relying on past models or assumptions, and designed the robotic platforms to meet those goals.

More recently, this tactic helped us envision the delivery of an mRNA Covid-19 vaccine in less than a year. At the time, it was a crazy idea on an accelerated timeline, but once again we did it by thinking backward. We started with the vision of an approved vaccine and mapped backward—month by month in this case—from government authorization to completion of clinical trials to vaccine manufacture to sequence selection—an end-to-end process that typically takes years.

Reverse chronology can be a powerful management tool for any organization. It fosters the kind of unconstrained thinking that leads to big and disruptive ideas that propel business, industry, and society forward. This approach is not foolproof, of course. It can stall for any number of reasons, including failing to unite stakeholders around a clear vision and creating a plan that lacks sufficient detail. You can achieve unreasonable things only by aligning people, giving them time to engage, and creating a sound plan of action.

A future-focused mindset will continue to be an important driver of Moderna’s growth over the coming decades. We want to become the most impactful life-sciences company on the planet, and playing the movie backward will help us get there.

Our motto is “Driving positive change, enabling people to rise.” It is the reason I joined the organization and the reason I have stayed.



Anish Shah

CEO / MAHINDRA

PURPOSE-DRIVEN STRATEGY

ON NOVEMBER 8, 1945, the Mahindra Group, then barely a month old, published an advertisement in India's largest circulating English daily, *The Times of India*. It mentioned no product or service. Instead, it listed the fundamental principles with which the company would operate. It highlighted the role of the individual within the enterprise, and, printed as the Second World War was coming to an end and India's independence movement was gaining steam, it emphasized the role of corporations in promoting a more cohesive society. It included a call to action—to “raise the standard of living of the masses”—and emphasized that “we must have the cooperation of those who will benefit the most—the general public.”

Today, we might call that advertisement a purpose statement. The principles laid out then still form the bedrock of the Mahindra Group's purpose and the shorthand we now use for it: “Rise.” Our modern-day motto, refined over the decades, is “Driving positive change, enabling people to rise.” It is the reason I joined the organization, and it is the reason I have stayed.

I can only marvel at the pre-science of Mahindra's first leaders for their early commitment to guiding



principles that emphasized not just business success but also the greater good. By 1962, Peter Drucker was also writing about “Big Business and the National Purpose” in these pages,

calling for more corporate “social responsibility.” He asserted that a large company is not “a ‘private affair’ and the concern of only its stockholders, executives, and employees”;



rather, it is “a community asset and ‘public’ in its conduct, in its mores, and in its impacts.” Further thinking on ethics in management, moving beyond strategy to purpose, corporate vision, what a business is for, and shared value followed from a host of management luminaries, including Jim Collins, Charles Handy, and Michael Porter.

All the while, Mahindra held fast to its purpose, and we’ve found that those founding principles have stood the test of time and guided us through unprecedented socioeconomic shifts. They have helped us excel at a range of businesses from automotive to farming to finance to travel, embrace cutting-edge technology, and spearhead a move toward improved environmental and ethical standards. For example, we started developing and investing in decarbonization well before the emergence of ESG funds and socially responsible investing. Adherence to our founding principles has allowed Mahindra Group not only to keep up with the times but to forge ahead of them.

There’s another line in that advertisement that I want to highlight: “Neither colour, nor creed, nor caste should stand in the way of harmonious working.” Even in the 1940s, those at Mahindra knew that for the organization to succeed and serve society, it would need to prioritize diversity and inclusion. We live in an unequal world that divides us from one another. Purpose-led businesses have the potential to create a more equal world. Only when we enable others to rise will we rise.



Roz Brewer

CEO / WALGREENS
BOOTS ALLIANCE



LISTENING AS A LEADER

LISTENING IS FUNDAMENTAL TO good leadership and management; however, to be effective, it must be practiced with great intention.

Over the years, I have learned that *active* listening helps to identify problems to solve, possibilities for innovation, necessary process or policy changes, new product ideas,

ways to improve customer service, and more.

As CEO of Walgreens Boots Alliance, and in prior retail leadership positions, I have always visited stores, looking for ways to make them better. I learn from our customers and our team members.

In 2022, there are so many ways to track consumer opinions—including through digital apps—but I think it’s still best to see and hear feedback live and in person. When I engage with the frontline team, the wheels really begin to turn.

As I introduce myself on store tours, I make it clear that I’m visiting to listen—not to play “Monday

Do we have this right? Endorse or tear it apart, but tell me how this stacks up with your experience in the store. I am listening."

morning quarterback" or a game of "gotcha." I want to engage my team members in a discussion and hear what they have to say. I want everyone to know that they have my full attention, so I do not bring any mobile devices with me. We talk about problems openly and then quickly create corrective action plans.

Even after I've looked at data to understand an issue and worked with my team to come up with a recommended resolution, I meet with store managers to put the proposal in front of them. I ask, "Do we have this right? Endorse it or tear it apart, but tell me how this stacks up with your experience in the store. I am listening."

I encourage my leadership team to visit stores too. Sometimes they come back and share, citing an outdated policy or process and saying, "I can't believe we did that. Did we really think that was a good idea?" Usually it's a decision we'd made having no idea it would hamper customer experience. Then we discuss the problem, unravel it, and fix it as a group.

After a store visit, I often send a note to the team members I met with. I thank them for sharing their perspectives and explain exactly how and when we're going to make changes as a result. Then, when they see the change come across the wire, they know their voices matter and that frontline innovation and problem-solving are deeply valued.

As management scholars have written in HBR for at least a decade, leadership is a conversation. Active listening can be one of your most powerful tools.

Nicolas Hieronimus

CEO / L'ORÉAL



GLOBAL VISION WITH
LOCAL EXECUTION

ONE OF THE biggest challenges facing any multinational company is how to stay locally relevant while still driving economies of scale and maximizing global reach. In a 1983 article in HBR,

Harvard Business School marketing professor Theodore Levitt argued for globally standardized products. His contemporary, the sociologist Roland Robertson, posited in HBR and elsewhere that the solution was instead "glocalization"—that is, tailoring global products, services, and business practices to local laws, customs, and preferences.

At L'Oréal, we have tackled this dilemma with an approach we call universalization: a centrally led strategy brought to life through local execution. Concretely, this means that



our teams in individual markets have a high degree of autonomy but operate under a clear, globally aligned frame. To support this, we have a worldwide network of manufacturing sites, research and innovation centers, and marketing design hubs to develop, make, and distribute products in various geographies.

Founded in Paris in 1909, L'Oréal now has a total of 85,400 people working in 68 countries and a presence in more than 150 markets. We've been able to create a flotilla of truly global brands, from Maybelline to Lancôme to Kérastase, while offering tailor-made products to meet the beauty aspirations of consumers in every part of the world.

For example, L'Oréal Paris, the world's largest beauty brand, offers a full range of highly advanced products in five categories: makeup, skin care, hair care, hair color, and male grooming. At the same time, our teams on the ground allow us to quickly identify emerging trends and issues in local markets, such as consumers' concerns about dark spots in Southeast Asia and Latin America or the exponential rise of independent hairstylists in North America. They also help us spot promising opportunities to support local initiatives. Our Active Cosmetics Division teams work hard to strengthen partnerships with health professionals and health influencers in various geographies.

Our approach spurs local innovation, which we can then roll out to other areas of the world. This was the case with the Garnier Bright Complete range of products, including the popular Vitamin C serum, which was originally designed for consumers in Southeast Asia and is now a hit in Mexico, France, and many other countries.

The balanced partnership we have between global and local teams encourages and rewards entrepreneurship, because anyone, anywhere, can make

a real difference. During my career, I have been lucky enough to work at our subsidiaries in Mexico and the United Kingdom and see firsthand how a bottom-up idea can have companywide impact and how adapting top-down ideas, resources, and guidance can provide an extra local edge.

Universalization also underpins our large transformation projects, pairing global vision with local implementation. Take our sustainability program, "L'Oréal for the Future." While we are working toward the same goal of protecting the beauty of the planet in all our markets, the specific actions taken may vary according to local context, regulations, and expectations. Through our impact investing funds, L'Oréal supports the regeneration of degraded ecosystems and rebuilding of biodiversity, including local initiatives to restore mangroves in Kenya, revitalize 50,000 hectares of land in the United Kingdom, and facilitate low-carbon agriculture in France.

The trust and tight partnerships between our global and local teams also guide us in crisis situations. For example, during the recent pandemic, we relied on our teams on the ground to identify global supply-chain disruptions and rapidly changing market conditions and worked together to navigate them. Just one example: Globally produced guidelines and materials enabled our teams in individual markets to work with their own authorities to put in place the enhanced sanitation protocols needed to ensure the safe reopening of salons.

As the world becomes ever more volatile, uncertain, chaotic, and ambiguous (VUCA), not to mention fragmented, I remain convinced that our approach will give us the adaptability we need to continue to succeed. Whether you call it glocalization or universalization, it can benefit any organization that strives to serve many markets.

Joey Wat

CEO / YUM CHINA



CONTINUOUS
INNOVATION

AS I HAVE moved from one job to another in my career, culminating in my current role as CEO of China's largest restaurant company, innovation has emerged as perhaps the most important part of my leadership philosophy.

Customer preferences are constantly evolving, while new technologies transform the way we interact. I have always believed that the companies that survive and prosper in dynamic, competitive markets are not necessarily the strongest or the smartest; they're the ones that can respond quickly and adapt effectively to changing circumstances. That requires empathy for those we're serving, resilience, and creativity—lessons that I learned during my relatively humble upbringing and that I've tried to provide to the teams I manage.

In times of comfort, many companies stop innovating because they lack a sense of urgency, and as the late HBS professor Clayton Christensen demonstrated, in doing so they open themselves to disruption. In times of crisis, innovation is even more important, as the pandemic showed us. In my industry, the firms that quickly adopted new health and safety measures for employees to keep their restaurants open and designed



new solutions like contactless ordering and pickup were the ones that came out stronger.

To drive organizational growth in good times and in bad, you need to build an innovative culture. At Yum China, our vision is to be an innovation pioneer in the restaurant industry, from the way our supply chain operates to how our food is flavored and prepared to the ordering and dining experience we offer our customers. By following this vision,

we have been able to expand by more than a thousand stores a year while maintaining healthy payback periods. New formats for our restaurants help us cater to different business needs, like delivery and takeaway services, as well as extend our presence into lower-tier cities. We launch, on average, more than 500 new or upgraded—and often localized—products across our brands each year, helping us diversify into adjacent categories to drive additional growth.

Suggestions for new menu items or service improvements routinely come from our frontline team members, who understand that as an organization, we want to grow rapidly, work in a more agile way, and create more value for customers. At Yum China, reasonable risk-taking is accepted, and employees are encouraged to think outside the box. Our Shanghai Innovation Center is where we experiment with and perfect both bottom-up and top-down ideas: From our business model to digitalization to the quality of our French fries, every area of our operation can always be improved.

Another key part of our innovation culture is making sure that our decision-making is fast, while still of high quality. We have worked hard to reduce the layers of bureaucracy that can slow the process and the speed at which we respond to changing customer preferences. We also focus on technology, upgrading our systems and introducing new tools like smart watches that enable our restaurants' general managers to track operation metrics in real time. Innovation is the lifeblood of our business—as it is or should be for every organization trying to be successful today.

Yum China has been operating for 35 years and has grown with new generations of customers. That is thanks to a relentless focus on continuous innovation. In the future, we will keep exploring new ways to enhance customer and employee experience, deliver value, and drive growth. Successful companies never rest on their laurels.



Mo Ibrahim

FORMER CEO / CELTEL



INCLUSIVE
CAPITALISM

I WAS BORN in Sudan to Sudanese parents, and although I've lived in Britain since my university days, I hold fast to many aspects of African culture. One key principle I learned from my ancestors is the importance of caring for one's neighbors. In my business ventures, that commitment has translated to what I call inclusive capitalism. (Others might use the term stakeholder capitalism.) As an entrepreneur and a CEO, my aim is to ensure that everyone who helps me achieve success—employees, investors, customers, members of the community—shares in the rewards.

In 1989, I founded MSI, a consultancy that advised telecommunications companies on software and network design, with \$50,000 of my own money. When we sold it 11 years later for \$900 million, I was proud that 33% of the company was held by our employees. At that time, there wasn't a culture of employee share ownership in the UK. But every December, I offered equity to our people at well-below-market prices. (One year, the employee price was 16 pence a share even though an investor had just offered to pay £15 a share!) As the sole owner, I could make decisions like that, and I did so without hesitation. It was fair and just for our people to participate in our collective value

creation. And at a time when technical talent was in high demand, it was a fantastic acquisition and retention strategy. MSI had some of the best engineers in the world, and together we designed half the mobile networks in Europe along with several in Asia. I often told the group, "It's thanks to you that we landed this contract and execute on it. If the company is making money, let us all make money."

My next venture was the one I'm best known for: Celtel, which brought mobile phone service to Africa. From the start, in 1998, I knew it would be a winning proposition. With a huge geographic spread and barely any landline service, the continent was in dire need of a telecommunications

network. By building one, we would help millions of Africans stay in touch with loved ones and better manage their own lives and businesses—and we could earn good revenues and profits doing it. However, neither industry players nor banks wanted to bet on a tech company in Africa.

This time around, I couldn't finance the project alone: We wanted to build networks in dozens of countries, which is extremely expensive. So I secured funding from various investors—seven rounds in six years. Those shareholders became key partners: Any institution holding a stake of more than 2% got a seat on our board, and we all committed to the highest governance standards.



Celtel's operating companies—we eventually had about a dozen, one for each country in which we launched—would pay no bribes. To keep everyone honest, any expense over \$30,000 had to be approved unanimously by the directors, and since our business was growing extremely rapidly—100% year over year—that meant being on call to give approvals virtually 24/7. We also refused to play the tax avoidance game that remains common in Africa and thus became the largest taxpayer in nine countries, happily funding roads, schools, and other critical infrastructure and services.

With equity spread among many investors, I couldn't give discounted shares to employees, as I had at MSI, but our board committed to full insurance and health care benefits for them and their families—an important step as AIDS ran rampant—and awarded significant stock options. By the time we sold the company in 2006 for \$3.4 billion, 13% of the shares were in workers' hands. To paraphrase Harvard Business School professor Felda Hardymon, a former Celtel board member, you never lose by giving employees a stake in the business.

At both MSI and Celtel, we focused on providing a service that customers needed and that would enhance communities from Spain to Singapore to my native Sudan. We rewarded our employees handsomely and earned deep loyalty as a result. And we partnered with our managers and shareholders to deliver impressive financial results and make a positive impact on people within and outside our firm. That approach wasn't yet fashionable. But it was the right thing to do.

Today, I lead the Mo Ibrahim Foundation, which focuses on expanding good governance and principled leadership in Africa. My hope is that more companies on the continent—and around the world—will embrace the principles of inclusive capitalism.



We committed to the highest governance standards and would pay no bribes.



Ignacio Galán

CEO AND CHAIRMAN /
IBERDROLA



**TRANSPARENT
SUSTAINABILITY
REPORTING**

IN 2001, WHEN I joined Iberdrola as CEO, sustainability reporting was not a top priority for the business world and certainly not for companies in the energy sector.

Indeed, it would be another three years before the acronym ESG—standing for environmental, social, and governance goals and metrics—was coined in a 2004 report



entitled “Who Cares Wins,” from the UN Global Compact, the International Finance Corporation, and the Swiss government.

In the 18 years since, the term has become something of a cliché in corporate circles, as leaders promise that their organizations will pollute less, contribute more to their communities, and operate ethically. However, as the old management adage goes, it’s only what is measured that gets managed. That is why we decided early on not only to commit to becoming the leading provider of clean energy in Europe and other markets (with operations in the United States, Mexico, Australia, and Japan, among others) but also to regularly release information on our progress toward that goal, including publishing a detailed annual environmental performance report.

In the introduction to the first edition in 2002, I made it clear that our company was on a transformative journey. At that time, fossil fuels were king, and most regulators, governments, and investors had little interest in shifting to alternatives, such as wind and solar. But we could see that renewables, supported by networks and storage, were the best way to reduce emissions and provide a more secure, self-sufficient, competitive, and climate-friendly energy solution.

I wanted to galvanize our employees, shape our corporate culture, and prove to investors and analysts that we were serious about our plans to be both sustainable and profitable.

In releasing the annual report, we exposed ourselves to an additional level of scrutiny not demanded of us by regulators or stakeholders. But another benefit of transparent and systematic reporting is that it helps us understand where problems and opportunities lie and find ways to rectify or take advantage of them.

Our commitment to “ESG+F” principles and reporting (where the F stands for finance) continued to evolve, and a few years later we created the concept of “social dividend” to reflect our commitment to creating value for all our stakeholders. Delivering a social dividend is mandated in our bylaws, and we report on it every year, just as we handle financial dividends.

And our two decades of efforts have been rewarded. We are now widely recognized as a top performer by external ESG indices, and at our 2022 annual general meeting, shareholders approved every agenda item by an average yearend vote of 98% but expressed even more overwhelming support—99.9%—for our governance and sustainability management.

Today investors, regulators, and the public fully expect ESG performance to be robustly reported and closely tied to corporate strategy. It is no longer just a matter of compliance. It is about being an active participant in the societal transformation that communities are demanding from private and public organizations. Reporting is a vital tool in successful management—and it is absolutely essential in the fight against climate change.

Indra Nooyi

FORMER CEO / PEPSICO



PERFORMANCE
WITH PURPOSE

WHEN I WAS NAMED CEO in 2006, I was determined to run PepsiCo so that it would both deliver good short-term performance and thrive in the long term, years after I was gone. The company was already in good shape, but I dreamed of creating a defining corporation of the 21st century, proud of its roots, yet global, nimble, and responsible in the shifting times.

For six months or more, I quietly read all I could about the big societal trends influencing business, the consumer sector, and food and beverage in particular. I walked the market, observing customers in action. I pored over buying data, employee feedback, and the external noise in our industry and categories. I also dug deep into the duties and responsibilities of public corporations. From all of this emerged a vision for PepsiCo that guided us for the next dozen years or so. I called it “Performance with Purpose.”

The goal was to deliver great financial returns, as we always had, with three additional clear imperatives: to nourish humanity and the communities in which we live, to replenish our environment, and to cherish our people. We would alter how PepsiCo made money by tying our business success to those objectives: adding more-nutritious products to our portfolio, reducing water usage and plastic waste, and attracting and retaining the very best talent.

My motivation was wholly to “future proof,” or de-risk, PepsiCo for the benefit of all—shareholders, employees, communities—by

- My motivation was wholly to “future proof,” or de-risk, PepsiCo for the benefit of all—shareholders, employees, communities.



anticipating how the world would change in the decades to come. And it worked. In my 12 years as CEO, total shareholder return was 149%, dividends grew 10% a year, and net revenue jumped 80%. We cut the salt, fat, and sugar in soda and chips, added more-healthy brands and products, and lowered the amount of water needed to make a bottle of Pepsi by 40%. We built a magnificent R&D operation to keep innovation going. Our design studios won many awards. Our talent academy was so robust that nine senior executives left to take CEO jobs elsewhere, a bittersweet accomplishment of which I am proud.

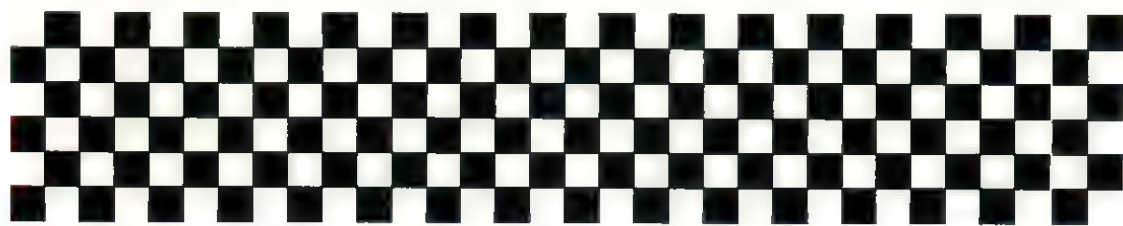
I believe that leaders must commit to the hard work of thinking from the future back, even when things are going fine. And we now have a framework to help: the evolving templates for environmental, social, and governance (ESG) metrics that, in essence, serve to de-risk companies and markets. These criteria force discussion of hard truths for anyone with the ambition to stay relevant in the long term. If the metrics are carefully selected, ESG is not contrary to investors' interests. Importantly, de-risking the company actually creates shareholder value.

“Performance with Purpose” wasn’t easy to implement and presented tough moments for me, including when one money manager exclaimed, “Who do you think you are? Mother Teresa?” But skepticism faded when a collective mission took hold that included both the bottom line and much beyond. This was my hope from the start. ☺

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LEADERSHIP



Number One in Formula One



AUTHOR

Anita Elberse
Professor Harvard Business School

Leadership lessons from **Toto Wolff** and
Mercedes, the team behind one of the greatest
winning streaks in all of sports



ILLUSTRATOR TELEGRAMME





LEADERSHIP

Formula One (F1) is the most prestigious motor-racing competition on the planet.

Every season, from March to December, 10 F1 teams participate in races across the world. The 2022 season features 22 “Grand Prix” weekends on five continents. Each involves three days of events: practice sessions on Friday and Saturday, qualifying sessions or short-sprint qualifying races to determine starting positions later on Saturday, and the actual race on Sunday. Close to half a billion unique viewers tune in to F1’s television coverage throughout the season, and the action on the ground can attract as many as 400,000 live spectators.

It is incredibly hard to win a Formula One race even once. The sport is often decided by margins measured in thousandths of seconds. Everything—from the engineering of the car in the factory to the multitude of decisions made on the track during a race weekend—needs to come together in

order to produce a victory. Last year only four teams managed to win at least one Grand Prix. It is even harder to rack up enough points in a season to win either a Drivers’ Championship (for the driver with the highest number of points, awarded according to the order in which cars finish a race) or a Constructors’ Championship (for the best overall team performance). And because the FIA, motorsports’ governing body, regularly overhauls its regulations to increase F1’s competitiveness, putting together a string of championships is nearly impossible.

Nonetheless, there is one team, Mercedes-AMG Petronas (or Mercedes, for short), that has managed to dominate F1 over the past decade. It has put together the longest winning streak the sport has ever seen: In the 2021 season Mercedes won its eighth consecutive Constructors’ Championship. During that eight-year period, the team won nearly seven of every 10 Grand Prix races it competed in—a staggering feat.

Although that remarkable series of victories was a team effort, one person was at the helm of the organization throughout—Toto Wolff, the team principal. His role requires him to lead approximately 1,800 people, including an elite group of drivers, the engineers and mechanics who develop and manufacture the car and its engine, and other employees in various supporting functions. Wolff, who assumed the position in 2013, is widely regarded as one of the best team principals F1 has ever seen. And the Mercedes team under his leadership has every reason to claim the title of most successful team in the history of F1—and maybe in all of sports.

How has Wolff done it? How has he led Mercedes to one victory after another? Last year my colleague David Moreno Vicente and I had a unique opportunity to study the team’s operations up close, by joining Wolff and his colleagues on

IDEA IN BRIEF

THE QUESTION

No team in recent Formula One racing history has had as much success as Mercedes-AMG Petronas. What lessons can organizations learn from the practices of its leader, Toto Wolff?

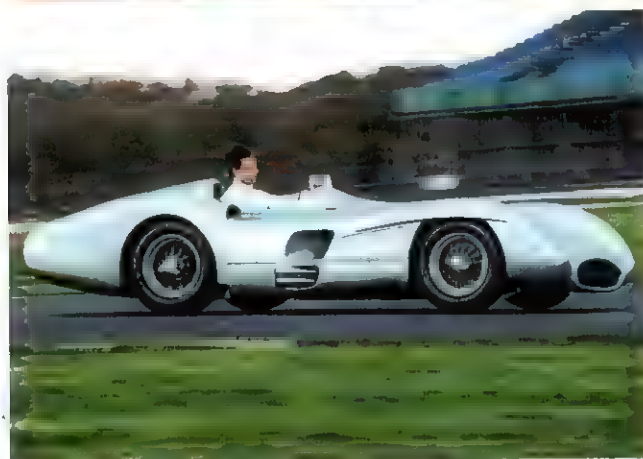
THE BACKGROUND

Mercedes and Wolff granted Anita Elberse of Harvard Business School, special behind-the-scenes access, allowing her to observe them up close as they prepared for, competed in, and analyzed their performance in races.

THE TAKEAWAY

Using what she learned about Wolff’s management style, Elberse presents six leadership lessons that can help companies of all sorts develop a winning culture.

Top to bottom: Toto Wolff at the 2015 Australian Grand Prix; Wolff driving a Mercedes-Benz W 196 R in 2019; Wolff at the 2018 Hungarian Grand Prix



the road and going behind the scenes during race weekends, where we watched them working in the garage, practicing pit stops, and conducting race-strategy meetings. We also sat down for interviews with Wolff, his drivers, and many other team members. All of that resulted in a case study, first taught in my MBA class in March 2022, which Wolff himself attended as a guest lecturer. (He even had the Mercedes F1 car shipped to campus for the occasion.)

While working on this project, I learned a great deal about the winning culture that characterizes the Mercedes team. In what follows, I have distilled my observations into six lessons for leaders hoping to cultivate their own winning teams, whether in sports or other realms. During my research I also came to understand how Wolff, with his mindset, values, and actions, shapes the culture at Mercedes. In fact, it was fascinating to discover how much his leadership traits map onto the culture he has fostered. There is a powerful message here for every leader—what you say and do comes to define the organization you lead—and so I aim, too, to highlight those connections.



SET THE HIGHEST STANDARDS— FOR EVERYONE

Wolff is a self-admitted stickler for even the smallest details. He told me that when he first visited the Mercedes team's factory, in Brackley, England, he walked into the lobby and sat down to wait for the team principal he would come to replace. "On the table were a crumpled *Daily Mail* newspaper from the week before and two old paper coffee cups," Wolff recalled. "I went up to the office to meet him, and at the end of our conversation I said, 'I look forward to working together. But just one thing—that reception area doesn't say "F1," and that's where it needs to start if we want to win.' He said, 'It's the engineering that makes us win,' and I replied, 'No, it's the attitude. It all starts with an attention to detail.'"

Wolff also told me about the first time he visited the bathroom in the team's hospitality area at races. "It was



LEADERSHIP

"It is not necessarily the best individuals who win races but the team that works best together."

dirty," he said, "and I thought, 'That cannot be. This is our home on a race weekend and where our sponsors come with their families.'" To remedy the situation, Wolff hired a full-time hygiene manager, Miguel Guerreiro, who now travels with the team. "I physically showed him how I wanted him to clean the toilet, how to put the brush back, how to wipe the floor, how to put the soap bottles with the front facing forward, how to sanitize the handles, and so on. And I walked him through what I wanted his schedule for the week to be, and how on Sundays, when it is busy, I want him to park himself right next to the bathroom and make sure it is spotless after every guest."

Whenever I teach the case study, we end up talking a great deal about Guerreiro and about why Wolff—with everything he is responsible for—would occupy himself at such a granular level of detail with the cleanliness of the toilets. Is he micromanaging? Perhaps. But he is doing so with clear goals: to set the highest possible standards throughout the organization, to send a message that no job is too small for even the highest-ranking executive, and to highlight that every single team member plays a part in Mercedes's performance.

Wolff's approach has trickled down into every aspect of the organization. "When I walked into the garage 10 years ago, it was messy," he told me. "Now we're cleaning the floor every time the car has been in there. You'll see no tire marks, no tool out of place. Everything is spotless and organized. I think that affects how we look after the cars too. We're meticulous."

This mindset has contributed to the emergence of an organization that is obsessed with excellence—one that constantly aims to raise its standards and set the benchmark within its sport.



PUT PEOPLE FRONT AND CENTER

"I don't run racing cars," Wolff is fond of saying. "I run people that run racing cars." He seeks to make his organization a people-centered one, and he genuinely cares

about the individuals he works with. "Each person in the organization has hopes, dreams, fears, and anxieties, and it is important for me to understand what those are—to learn what drives a person," said Wolff. Taking an interest in others is a key trait in any setting, but maybe especially so for an F1 team principal who has to deal with a multitude of very different stakeholders, from drivers, engineers, and other staff members to Mercedes board members, sponsors, the media, and governing-body officials.

Working effectively with world-class engineers in a highly specialized profession is often a challenge for team principals who, like Wolff, do not have a technical background. One Mercedes team executive I spoke with highlighted the risk of principals being held hostage by engineers—for instance, when something is not right with the car during a race weekend but no one is sure how to solve the problem.

Race weekends can be roller coasters of emotions, and it is easy to feel pressure as a principal if you don't understand the technical details as deeply as others do. Wolff, however, accepts that. "I don't know as much about aerodynamics as the engineers on the team do," he said, "but I want to know about them as people, and I enjoy spending time with them, which makes it easier to figure out the best course of action in tough situations." The effort he makes to build a rapport with his team members benefits all parties, explained one Mercedes executive: "This is a business that is dominated by engineers. It is not easy as an engineer, as you gradually get promoted and find yourself in a position of, say, technical director, to realize that you suddenly, for the first time in your career, have a boss who isn't an engineer. But with Toto that transition has been relatively smooth, because he has spent a tremendous amount of time understanding what it is that we, as the engineering community, are trying to say."

Wolff knows that "it is not necessarily the best individuals who win races but the team that works best together," as Mercedes's chief people officer put it. That's why, at the start of his second season at Mercedes, Wolff organized an offsite with nearly two dozen members of his leadership team to talk about the human side of the organization. They discussed their vision for the team, identified the core values they wanted to emphasize, and outlined their ambitions.

Lots of leaders engage in such exercises with their teams, of course, but what makes these effective is the





LEADERSHIP

follow-through. Wolff realizes that changing an organization's culture is a slow process that requires a consistent, year-after-year effort. So in Mercedes's annual employee evaluations, the leadership team asks people to self-assess their performance on the team's core values. And the team leaders spend a day each year clarifying their intentions ahead of a new season and summarizing the team's goals in a short write-up that serves to guide their work throughout the year.



ANALYZE MISTAKES—EVEN WHEN WINNING

Performing with excellence does not mean that mistakes are never made. When something fails, Wolff is all about what he calls tough love or brutal honesty. "He tells you the truth even if it might not be what you want to hear," as one team engineer put it. "He'll just say, 'This is where we are, this is where we need to get to, and this is how we are going to figure this out,' in the spirit of 'You're not an idiot, but this is why it was an idiotic decision.'"

Wolff's directness has contributed to an organizational culture that places great value on analyzing its race-weekend performances thoroughly, regardless of the result. Win or lose, the team holds debrief meetings and always conducts them in exactly the same manner, with a focus on what can be improved the next time. "After a win," Wolff noted, "most people go home and say, 'That was a good weekend.' They don't go home and say, 'Why did we win?' It's only when they lose that most people start to dig deep. But we have an ethos that we are upset about the small things we do wrong, and so we treat wins the same as losses."

He added, "I remember a weekend in which we surprised ourselves with our straight-line speed. I told the team that I wanted to know what the cause was. We hadn't suddenly witnessed any miracles with our power unit or chassis. So what was it? If you don't understand what is happening on a good day, you surely won't understand what is happening on a bad day."



FOSTER AN OPEN, NO-BLAME CULTURE

In Wolff's view, analyzing mistakes should not lead to assigning fault. In fact, Wolff advocates a no-blame culture and makes a point of—very publicly—backing individuals who make missteps. When he talks about the people on his team, he often refers to them as his "tribe" and defends them staunchly. He explains, "I'm there to protect my tribe, and I will fight back with all I have. I want my people to be able to say 'I made a mistake' and for us to move on from that."

Wolff's approach was on full display in the aftermath of a significant failure during a 2021 race in Monaco. During a pit stop for then-Mercedes driver Valtteri Bottas, one of the mechanics tasked with changing a tire found it to be stuck in its position. As the clock ticked, all attempts to remove the tire proved fruitless, forcing Bottas to pull out of the competition midrace. The tire was so jammed, in fact, that the team had to ship the entire car back to its factory in the UK, where the wheel was cut off with a special tool. "That had never happened in F1. The mechanic was heartbroken," Wolff said. "I stood up then and said, 'Yes, you are going into the history books with the longest pit stop ever for a tire change—36 hours.' But I also made sure to show him and everyone else in the garage and at the factory that I had his back when, after the race, a journalist tried to blame the mechanic. I was sending a message that I am protecting the team."

It is easy for leaders to declare that they want their organization to refrain from assigning blame. But living up to that promise when setbacks inevitably present themselves is incredibly hard. "When someone makes a mistake in your company," Wolff explained, "especially when that happens in front of 100 million people watching, the natural thing—almost like a pressure-release valve—is to say, 'It's his fault.' But as a leader you have to fight that instinct and ask yourself, 'How could that happen? Have we not provided the right tools, or the right training, or put the right people in the right place?' In the end, even though I wasn't the one changing that tire, the mistake is my responsibility."

Wolff is also not afraid to be honest with himself and others about his own failures. He recalled one such incident: "There was a race where I had a board member standing beside me in the garage, and rather than being fully available for the strategists, I was chatting away with him. We missed the window to pit the car. In the debrief on Monday morning in which the 30 or so heads of different departments come together, I admitted that I'd had a massively bad moment."

“When they make a mistake, I want our people to know they don’t need to lie in order to retain their jobs. We live by the mantra *See it, say it, fix it.*”

I should have been a sparring partner for [my motorsport strategy director], and I was not. I was distracted. That loss goes on my shoulders.”

Wolff’s reluctance to assign blame to others and his willingness to accept it personally combine to foster a culture that encourages openness. “When they make a mistake, I want our people to know they don’t need to lie in order to retain their jobs,” Wolff said. “I want the organization to be one in which people feel safe speaking up. We live by the mantra *See it, say it, fix it.*”

That ethos is one that Lewis Hamilton, one of the team’s drivers and a seven-time winner of the Drivers’ Championship, fully endorses. “I’ve been in other environments where one person got the blame for something,” he said. “But we have to do things together. Even at the racetrack, when you know something has gone wrong and it is down to one person, we don’t single out that person and make them feel bad—we all bear the brunt of it.”



TRUST SUPERSTARS BUT MAINTAIN AUTHORITY

One of the most challenging aspects of a team principal’s job is managing the drivers. They are global celebrities, with all the demands on their time that fame entails. In addition, each team participating in a race has two drivers competing in separate cars, which offers strategic advantages but can also create tension. “The Constructors’ Championship is a reward for the entire team,” Hamilton explained. “As a driver, you’re somewhat conflicted, because you also want to beat the team’s other driver for the Drivers’ Championship.”

Wolff is quite trusting of his drivers, observed Hamilton. “Some people in F1,” he said, “are of the mindset that a driver has to go to bed at 10 PM and shouldn’t do anything but race. I told Toto I am different. I have other creative outlets I’d like to tap into—fashion, for instance, and music—which allows me to do my job best. It helps me be in a happier place. Toto understands that—he has been super

accommodating.” For Wolff it’s a matter of mutual respect: “We have a pact. The idea is, ‘You perform, and I create a framework for you that allows you to perform.’ He knows what is good for him—I trust him on that.”

For 10 days during the 2018 season, for instance, to commemorate the launch of his own fashion collection, Hamilton walked the runway at a Tommy Hilfiger show in Shanghai, flew to New York and then to London for a friend’s wedding, and eventually joined the team in Singapore a day before the weekend’s first practice sessions. “Lots of people were in disbelief that I allowed him to do so,” Wolff recalled. “I told Lewis, ‘You know people think I’ve lost the plot here,’ but he said, ‘Trust me.’ His performance that weekend was from another world. He delivered one of the best qualifying laps we have ever seen and then drove away from the field at the start of the race. No one came even close.”

Importantly, although Wolff gives his drivers considerable autonomy, he is not afraid to be a strong leader when the situation calls for it. He cited an incident at the Barcelona Grand Prix in 2016 between Hamilton and Nico Rosberg, who also drove for Mercedes at the time. They infamously clashed while leading the race, taking each other out on the first lap. “I felt that they were opportunistic,” Wolff recalled, “putting their own objectives before the team’s objectives. They did not respect that there were a thousand people who worked for them. I had to show the organization that I wouldn’t allow that behavior anymore. After the race, I demanded that both drivers come out to the space where all the engineers were. I told them, ‘Look at everybody here in this room, imagine everybody back at home and their families, and realize how you are making us look.’ I used some harsh words I cannot repeat here. I saw the engineers look at the floor, the drivers look at the floor....I said, ‘The next time you want to drive each other off the road, you think about all the faces here, and then you will think twice.’ And I told them that if it happened again, I would not hesitate to take them out of the car. I said, ‘Don’t challenge me on this—you don’t want to find out what I am capable of.’”

Wolff readily praises his drivers (they “would not be F1 drivers if they weren’t intelligent,” he said), and he understands that anyone can make a mistake. “But they need to know,” he added, “that you have your limits, and that you have a side they won’t like and don’t want to see.”



LEADERSHIP



"If you have won several times, like Mercedes has, you become the one being chased. But you want to keep the hunter mentality alive."



RELENTLESSLY BATTLE COMPLACENCY

Wolff deeply dislikes losing. "I cannot stand the humiliation we would face," he told me, "and I will do everything I can to avoid it. I just cannot take losing against someone. You must never, ever believe that the winning will continue. On the contrary, I always worry that it could end—that this is the cliff, and I am staring at the abyss."

Wolff showed his competitiveness in 2018 after Sebastian Vettel, Ferrari's driver, won a race in the UK in front of a huge crowd of mostly British fans who were supporting their fellow countryman Hamilton. "In the final lap," Wolff recalled, "when Vettel is celebrating, he tells his team on the radio something in Italian like 'We won in their home!' That's such an insult. It was also the best thing that could have happened to us. We played that segment over and over again in our factory. And by the end of the season, we were champions again." He added, "For me, the joy of winning is normally much less intense than the pain of losing. The fear of losing stays with me. And that's helpful—I wouldn't ever want to get used to it. Getting used to losing is the biggest reason for losing."

Several executives I interviewed made it clear that this mindset has permeated the culture at Mercedes and in fact may be the key to the team's winning streak. "We try very, very hard to keep reminding ourselves that our competitors are very good, that they will be hurting when we win, and that hurting generally leads to trying desperately hard," one executive said. "We work more hours today than we did in 2014, the drivers spend more time in the simulator than they did in 2014, we spend more time going through data analyzing what went right and wrong—everything is levels deeper than what we did back then....It is the opposite of complacency."

One way in which Wolff fosters ongoing competitiveness is by encouraging his team members—from the engineers to the marketing people—to find out who their counterparts are on rival teams and commit to surpassing them. This motivational strategy is evident from an email he sent to the

entire organization ahead of the 2021 season. In that email, after pointing out that Mercedes was significantly underperforming in preseason testing, he added:

It's all there; we need to channel the force into the right direction. And this direction points to Milton Keynes [the home base of rival team Red Bull]. We have spoken about this in the past: Take the time to find out who your opposite person is there and look at him or her every day. Put the picture right in front of you so you know whom to beat. Each of you in whatever department and role will make a difference for our performance for this season and the seasons to come if you do a better job than this opposite person. Never underestimate the power of our collective group that focuses on our joint mission and target.

Such a focus is vital, Wolff understands, because F1 is a sport of margins like no other. As Ola Källenius, the chairman of Mercedes-Benz, put it, "A lap difference of a tenth of a second on average over the course of a season decides who is going to be champion—that's a few meters on a five-kilometer track. So it is incredibly difficult to win an F1 championship, let alone eight in a row. Everyone needs to have the mindset to want to chase every thousandth of a second all these years." He continued, "If you have won several times, like Mercedes has, you become the one being chased. You are no longer the hunter—you are the prey—but you want to keep the hunter mentality alive. Toto has been masterful at not getting complacent himself, and not letting anyone around him get complacent either."

ALTHOUGH MOST FORMULA ONE fans may pay keenest attention to the performances of individual drivers during race weekends, the real battle in the sport is about much more than that. For a team to win even a single Formula One championship, not to mention eight in a row, every part of the organization has to do superb work all season long and come together with an extraordinary sense of focus and purpose. Such a feat is likely possible only with the guidance of a highly effective leader—someone like Toto Wolff, who has an unwavering desire to compete and understands that establishing a winning culture is an all-encompassing, never-ending process. ©

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INNOVATION

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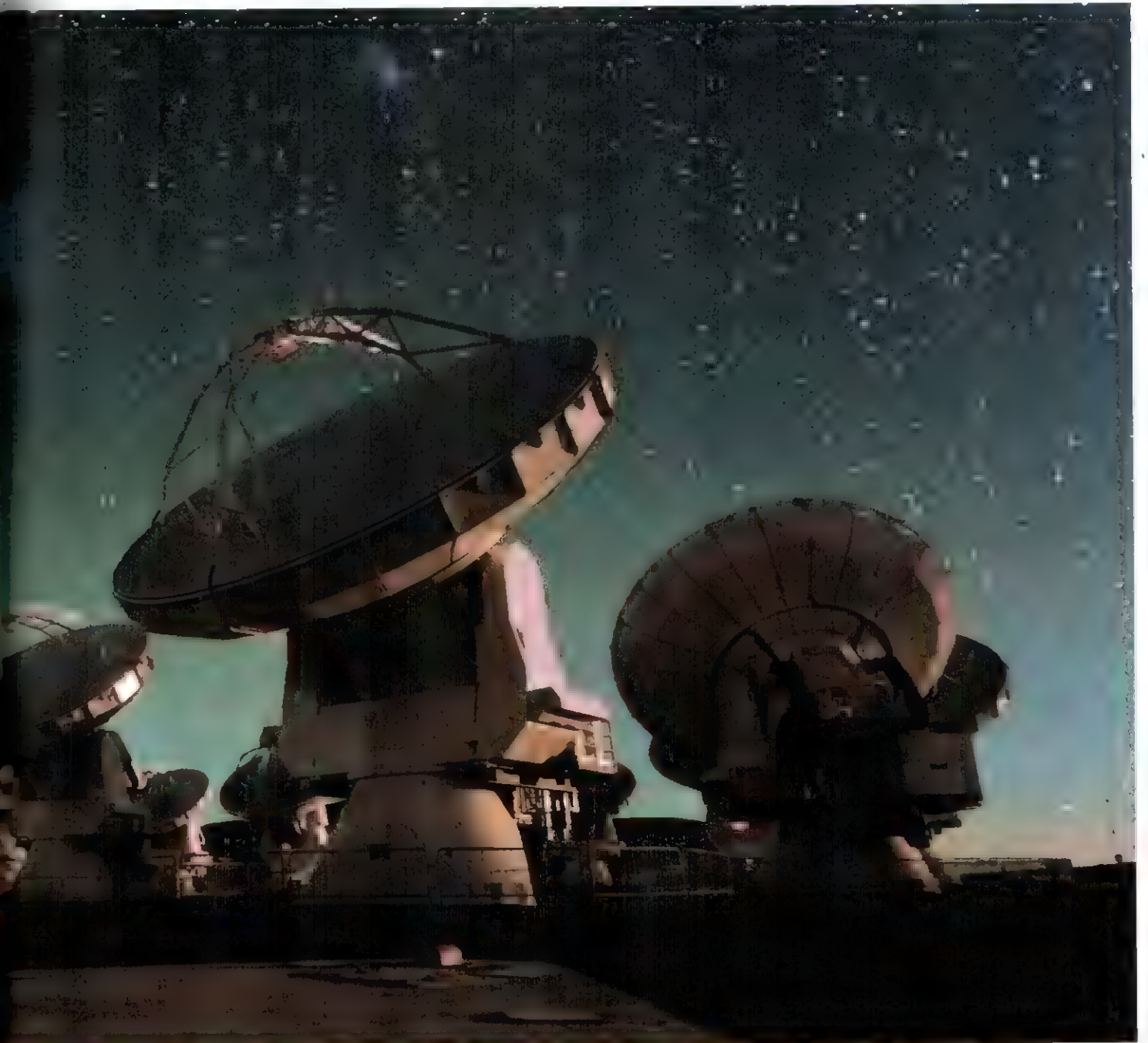
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EUROPEAN SOUTHERN OBSERVATORY



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ABOUT THE ART

The European Southern Observatory is an intergovernmental organization that designs, builds and operates world-class observatories to enable scientists worldwide to tackle exciting questions and spread the fascination of astronomy. Previous spread: Antennae of the Atacama Large Millimeter/submillimeter Array (ALMA), on the Chajnantor Plateau in the Chilean Andes; this spread: the Milky Way, arching across the Chilean night sky.

IDEA IN BRIEF

THE SITUATION

Space is becoming a potential source of value for businesses across a range of sectors, including agriculture, pharmaceuticals, consumer goods and tourism.

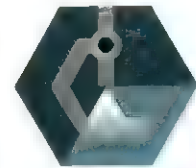
THE EXPLANATION

Rocket launch companies like SpaceX, Blue Origin, and Sierra Space have leveraged advances in microelectronics and computing to drive down the costs of getting to space.

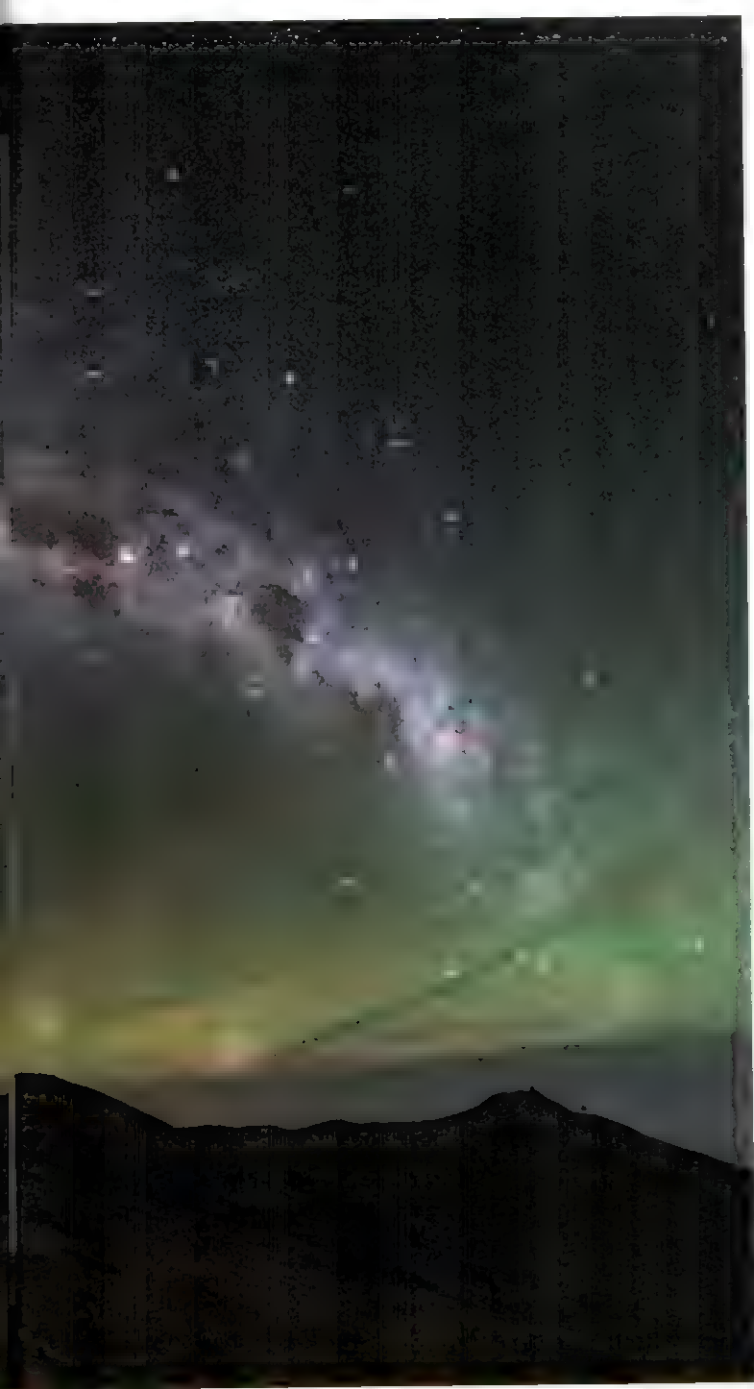
THE OPPORTUNITIES

This article examines four ways that companies can create value using space through data, capabilities, resources, and markets. For most companies thinking about their space strategy over the next five to 10 years, data will be the dominant focus. The other areas hold promise for later exploration. Companies engaging with commercial space should be willing to experiment and look for partners.





INNOVATION



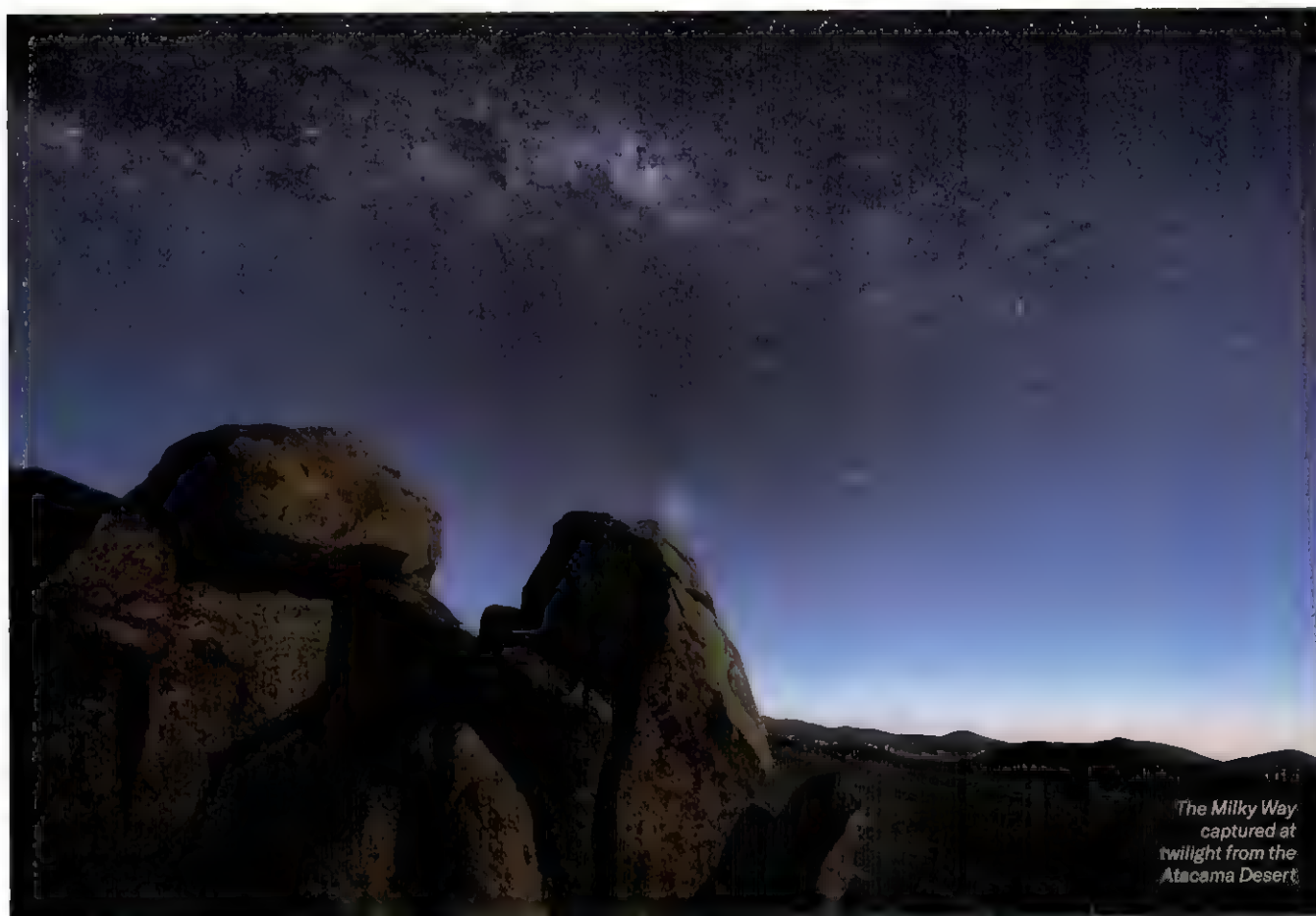
In the early 2000s, as the U.S. space shuttle program was winding down, the government's policy on space moved away from its model of flowing all money and decisions through NASA and the Department of Defense.

Instead, it began to allow privately funded companies to compete for public-sector contracts. The Commercial Orbital Transportation Services program (commonly known as COTS) and its successors, for example, gave private companies fixed-price contracts, rather than the cost-plus contracts typically used in the space sector, to provide services to resupply the International Space Station.

That change spurred the growth of rocket launch companies like Blue Origin, Sierra Space, and SpaceX, which have leveraged advances in microelectronics and computing over the past several decades to drive down the costs of getting satellites (the most common payload) into space by making them smaller, lighter, and more powerful. Today the cost of launching a satellite using SpaceX's Falcon Heavy is less than 8% of the cost of launching one before 2000, before private companies were invited to compete. And projections for SpaceX's next vehicle, Starship, hover in the single-digit millions of dollars. Given a payload capacity of 150 metric tons, that could bring costs per kilogram down to less than \$100.

At the same time, the proliferation of smartphones and other satellite-connected devices has driven demand for

- ● Whether it's tracking the number of cars parked in retail locations or detecting methane leaks from natural-gas wells, creative uses for data gathered from space abound.



those satellites. Jeff Bezos (who founded Blue Origin) and Elon Musk (who founded SpaceX) built their personal fortunes on the industries created by technological advances, and they are now providing abundant and patient seed capital to their space start-ups.

The billionaires don't have the field all to themselves. Venture capital has flowed into the sector as well, increasing from less than \$1 billion in the early 2000s to more than \$15 billion in 2021, according to space consultancy Bryce-Tech. That has helped fund more than 100 start-ups that are developing smaller rockets to provide bespoke launch services—placing satellites in precise orbital locations, for example, and making space accessible to customers whose

launch needs are unsuitable for the “rideshare” model of the larger rockets. (In that model, many satellites share the cost of a launch and are released together; then they independently navigate to their various destinations.) Riding this wave of more-affordable access to space are hundreds of young satellite companies, each developing innovative technologies that take advantage of the unique opportunities and environment of space.

The result is that space is becoming an important source of value for businesses across diverse sectors—including agriculture, pharmaceuticals, tourism, and consumer goods. Businesses such as Apple, Amazon Web Services, General Motors, John Deere, Merck, and many more are already



INNOVATION

making moves. And Microsoft, which in 2020 launched Azure Space, a platform connecting “the possibilities of space with the power of the cloud,” has said that every one of its enterprise customers could benefit from space.

What are the opportunities for your company? To answer that question, consider the four ways in which using space could create value: data, capabilities, resources, and markets. For most companies thinking about their space strategy over the next five to 10 years—whether as providers of space services or as customers of them—data will be the dominant focus. Those looking further ahead, though, will want to explore the value to be gained from the others as well.

DATA

Learning From and Through Space

The best-known uses of space involve data—either gathering data *from* space about what is happening on Earth or transmitting data *through* space from one part of the world to another. These uses are already well established, but their reach is expanding.

The now classic example of how space can deliver value for businesses is the Global Positioning System, or GPS. Originally created to provide position, navigation, and timing data for the U.S. military, GPS has become critical to the world economy. A 2019 study sponsored by the National Institute of Standards and Technology found that since GPS’s services were opened to the private sector in 1983, GPS has generated roughly \$1.4 trillion in economic benefits for U.S. industries, including agriculture, transportation, energy, and consumer goods. About 90% of the benefits have been realized in the past 10 years. And altogether new kinds of companies, including rideshare services such as Uber and Lyft, have been built on its back.

GPS was just the start. Today the private sector has access to an increasingly broad, diverse, and powerful set of space-based data and services at ever more cost-effective prices. Take remote-sensing satellites, which use a suite of sensors to generate information about our planet’s surface almost in real time. Companies are increasingly turning to remote-sensing companies for data that will inform business decisions. Whether it’s tracking the number of cars parked in retail locations, detecting costly and environmentally

damaging methane leaks from natural-gas wells, or assessing soil type and moisture content to maximize crop yields, creative uses for data gathered from space abound.

The international insurance company Swiss Re, for example, has signed a deal with Earth observation start-up Iceye as part of its mission to close the insurance protection gap. “Using Iceye,” says Pranav Pasricha, a senior Swiss Re executive, “we can quickly and accurately assess the extent of flooding, calculate loss estimates, and help our insurance clients [to] direct resources.”

For decades, satellites have been an important tool for measuring our changing climate: Roughly 60% of the World Meteorological Organization’s essential climate variables (physical, chemical, or biological variables critical to the Earth’s climate) incorporate space-based data, and several variables can be measured only from space. Today a new generation of commercial satellites provide an array of targeted environmental data that is valuable to business leaders. From measuring a company’s greenhouse gas emissions (GHGSat, Bluefield), to optimizing solar panel usage (Solargis), to measuring heat waste (Satellite Vu), to informing the measurement of ESG risks (Planet Labs with Moody’s), commercial satellites are helping businesses measure their environmental impacts and meet their sustainability goals. Earth observation company Spire, which operates a fleet of small satellites, offers sophisticated weather prediction that helps companies make decisions about their operations. As Space Capital’s report on climate asserts, “the need for persistent global monitoring and coordination will [make] every company of tomorrow...a space company.”

As remote-sensing companies have matured, their products have evolved from raw data to “incredible products that are simple to use,” according to Kevin Weil, the president of product and business at Planet Labs, a leading remote-sensing company. The biggest hurdle for these Earth observation companies? “Awareness,” says Weil. “The data and the impact coming from Planet and the rest of the Earth observation industry could be 100 times what it is if there was more awareness.” Advances in artificial intelligence and machine learning, incorporation of other data sources, and improvements in the satellite technologies themselves will only enhance the impact of space-based data.



INNOVATION

Right: The Milky Way glitters brightly over ALMA antennae in the Chilean Andes

The use of satellites as relay posts for data transmission is also growing. Although ground-based networks tend to be faster, as the data doesn't have to travel into space and back, the high cost of extending terrestrial infrastructure and the demand for mobile broadband have greatly increased interest in connecting to the internet through space.

In 2019 Bloomberg reported that Apple was considering building its own satellites to provide its devices with widespread internet coverage; in September, Apple announced the iPhone 14 will include built-in satellite connectivity for emergency communications. SpaceX has said that its cloud of Starlink satellites, when completed, could turn any spot on the globe into an internet hotspot—a capability that made headlines when Starlink helped assure internet access for Ukrainian leaders in the face of Russian aggression. In a matter of hours, SpaceX activated Starlink access in Ukraine and shipped terminals for use by the Ukrainian government. Starlink and other satellite-based broadband services, like Amazon's Project Kuiper, could significantly expand access to high-speed internet. As complementary infrastructure and products are developed, such as SatixFy's recently announced aircraft-mounted terminal designed to provide highly reliable broadband to airline passengers, space-based internet will offer consumers and businesses attractive new possibilities.

CAPABILITIES

Using the Unique Characteristics of Space

Executives should also ask, What value can my company create from activities conducted in space? While this may sound more like science fiction than current business reality, experiments that will shape many terrestrial industries in the future are already in progress.

Pharmaceutical companies, for example, are using the low-gravity vacuum of space to support cutting-edge R&D. Bristol Myers Squibb is a case in point. Since 1995 the company has collaborated with BioServe to conduct outer space experiments on fungal and bacterial fermentation, medicinal plant growth, and X-ray crystallography on the International Space Station (ISS). Similarly, Merck has been sending payloads to the ISS since 2014 to study the development of crystals in their drugs. This research hopes to improve drug manufacturing and storage.

Pharma companies aren't the only ones using space capabilities for research. Experiments in the microgravity environment of Earth's orbit have contributed to our understanding of fluid physics, the structures of gels and pastes (colloids), muscle atrophy and bone loss, combustion, and much more, with applications for health care, manufacturing, and many other industries. Experiments in space biology have generated insights about plants' growth and germination in microgravity, for example, and their responses to light. Research like this has commercial implications for the future of the agriculture and food industries.

Beyond R&D, many companies are working to usher in a new era of manufacturing that uses the unique environment of space. Companies such as Made In Space (part of Redwire) and Varda plan to build in space, eliminating the need to design satellites and other space infrastructure to survive the violent launch process. Doing so would open up entirely new possibilities for the shape, functionality, and cost of space assets.

For example, Made In Space and other companies are working on products such as ZBLAN, which is a fluoride glass fiber that is potentially 20 times more efficient than traditional fiber-optic cables. ZBLAN is difficult to produce on Earth, but its in-orbit production is a possible first step in manufacturing it at scale in space, for Earth. Or consider LambdaVision, which is pursuing synthetic retina manufacturing in orbit, and Maana Electric, which is developing a terrestrial solar-panel manufacturing process that could work on the moon. In addition, nearly a dozen firms are cooperating on designs—four of which have received more than \$100 million each in funding from NASA—for commercial space stations to be completed later this decade. These new stations are designed to attract private R&D, manufacturing, and other sources of demand, like tourists. When completed, they will make it easier and more valuable than ever to operate in space.

Manufacturing in space has been a goal for decades. But the dramatic decline in launch costs for raw-material inputs, coupled with the promised efficiency of stations designed for it, are changing its economic viability for the better. The same forces of lower costs and greater functionality that have spurred dramatic growth in the satellite sector are now coming into play in in-space capabilities.





The rapidly developing market for space tourism is expected to reach roughly \$400 million in the next decade.

RESOURCES

Utilizing Space Assets

As humans expand their operations in space, they will increasingly look to use resources found in space. The earliest ventures in this area will likely target the moon; 70 commercial lunar missions have already been planned for the next 10 years. For example, Orbit Fab is building an “in-space propellant supply chain” that could tap water resources on the moon to stock its “gas stations in space,” making possible the refueling and repositioning of satellites and satellite servicing systems.

Looking beyond the moon, additive manufacturing specialist Relativity Space foresees using its cutting-edge technology—which today it applies to building rockets—to construct an “industrial base” on Mars. Even more broadly, Jeff Bezos has stated that part of the vision behind Blue Origin is “to take all heavy industry, all polluting industry, and move it into space. And keep Earth as this beautiful gem of a planet that it is.”

It’s hard to predict how quickly in-situ resource utilization will develop because we are still so early in the rise of the space economy. And while the early glow of start-ups such as Planetary Resources and Deep Space Industries, which proposed mining valuable metals, water, and minerals from asteroids, faded when the market failed to develop rapidly enough, the sheer magnitude of mineral wealth available off-world will continue to attract interest. In May 2022, the start-up AstroForge raised \$13 million, and it’s betting that the time is right to make asteroid-mining a reality.

MARKETS

Meeting Demand from the New Space Age

In the long term, companies will start to operate in space not simply because costs have fallen but also because the presence of more people in space, for longer periods, and more frequently, will generate demand for goods and services for consumption there.

Some of the markets will come from public-sector programs—NASA’s Artemis program is designed to help establish sustained activity on the moon, for instance—but there is no better example of this than the rapidly developing interest

in space tourism—a market expected to reach roughly \$400 million in the next decade. Blue Origin and SpaceX have already taken paying passengers into space. As costs decline and technical infrastructure is assembled in orbit, other types of companies in the tourist sector will start to explore opportunities. Who will provide accommodation for space tourists? What kinds of activities will they be interested in?

On their heels will come commercial real-estate developers, lawyers, construction firms, and other players who specialize in creating hospitable and economically thriving terrestrial environments. Architects, designers, and artists will be asked to humanize the new spaces. In fact, some already have: When envisioning the habitation module for its planned space station, Axiom Space turned to industrial architect Philippe Starck, whose design evokes a nurturing, nestlike feeling (as well as offering a stunning view, of course). The construction firm Icon and the architecture firm the Bjarke Ingels Group have recently worked with NASA to help plan its construction system for the Artemis mission to the moon and create a structure called Mars Dune Alpha to simulate what it would be like to live on Mars.

If in the long run commercial habitats proliferate, perhaps even to the creation by 2050 of the city on Mars forecast by Elon Musk, then humans will want to enjoy their time in space. They will bring demands for all the creature comforts we have on Earth and for new experiences possible only in space. That is the sort of demand that markets are excellent at supplying. Substantial growth of the space-for-space economy will create opportunities akin to new geographic markets for firms of all types. While people sometimes lament that the expansion of global brands to all corners of the world has flattened experience, the operational excellence and reliable quality of global brands will provide welcome comfort in the harsh reaches of space.

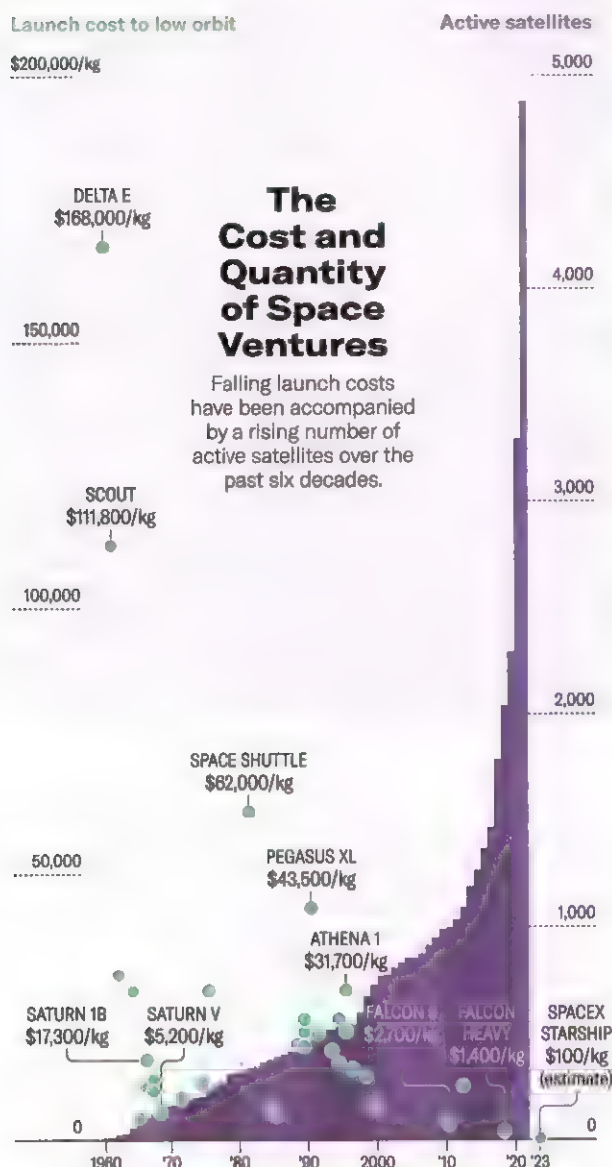
Now let’s look at how companies interested in capitalizing on one or more of these four areas of space value should get started.

Be Ready to Fail Fast

Traditionally, exploiting a new market opportunity in tech has required would-be suppliers to be early movers—assembling the skills, resources, and capabilities to create



INNOVATION



Source: International Conference on Environmental Systems;
Dr. Jonathan C. McDowell

new-to-the-world products and services. Is the same true for space? To answer this question, it's worth revisiting the history of the first wave of commercial space ventures.

In the fall of 1998, Iridium, a provider of global telephony services to consumers and businesses, announced the launch of its commercial service. Over the prior decade, Iridium had developed and launched a constellation of 75 satellites (66 for operations and nine spares) at a cost of more than \$5 billion. That was a glittering achievement. No one had ever before assembled such a vast array of satellites in

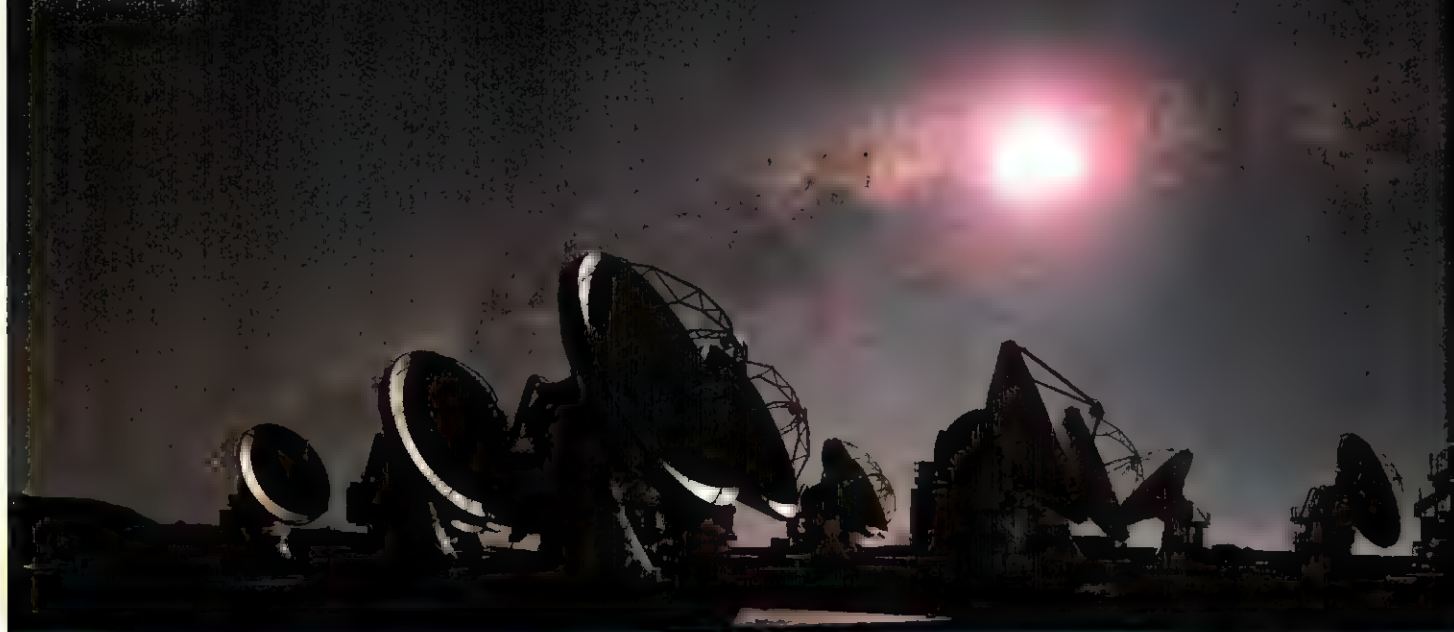
low-Earth orbit. And Iridium's satellites had capabilities that others did not—they talked to one another while whizzing around the globe at 17,000 miles per hour.

At launch, however, there were challenges with the technology, especially with the ability to make and receive calls in cities and inside buildings. More critically, the anticipated market failed to materialize. After five months, only 10,000 subscribers had signed up. Bleeding cash, and with too few customers to cover operating costs, Iridium filed for bankruptcy less than 10 months after launch.

Contrast this approach with Lynk, a venture with a similar goal: providing “fill-in” global cellular coverage that uses a customer's existing equipment. While Lynk's plans eventually required hundreds of satellites, they began with a series of experiments. Each experiment gave Lynk more information on the feasibility, desirability, and viability of the overall venture—and more information with which to plan the next experiment. In 2020 Lynk tested whether cell phones could receive a text from a single satellite in orbit and confirmed the system's technical feasibility. Then in 2022, with its fifth satellite, it tested two-way connectivity between space and earthbound equipment in five locations around the globe. During that test, the company received pings requesting service from thousands of regular user devices out of range of traditional cell towers, giving it an indication of potential demand. No one can know for certain whether Lynk will succeed in an increasingly crowded field. But its experiment-as-you-go philosophy allows for maximum flexibility to learn and adapt over time.

A flexible approach is beginning to dominate. In the early days of the space industry, government actors embarked on multibillion-dollar projects with elaborate processes for managing risk; failure was to be avoided at almost all cost. Now SpaceX and other start-ups have adopted the fail-fast approach common to the tech sector. As one executive remarked to a group of MBA students while watching a Starship systems test come to an explosive end: “Just think how much they learned from that test. If they had tried to eliminate that risk, it would have taken many more years and millions more dollars.” As we prepare to enter the New Space Age, the message is clear. Space companies of the future can't avoid risk. They must embrace it and let it drive their learning.

Panorama from the site of ALMA, in the Chilean Andes



Find the Right Team

Space is not only an expensive business, it is also a highly complex one. As Dylan Taylor, cofounder and CEO of Voyager Space Holdings, says, “You capture value in space by [having] Capability A, marrying it with Capability B, and unlocking a new Capability C that’s higher up on the food chain.” That’s why Voyager has acquired majority stakes in a range of space-focused companies covering launch, robotics, in-space manufacturing and research, travel, and more.

Of course not all companies can afford to use M&A to pursue space opportunities. In that case the best approach is to partner up. You’ll be in good company. In December 2021, NASA awarded more than \$400 million in contracts for commercial space-station development. All three winners were teams: Blue Origin partnered with Sierra Space, Boeing, Redwire, Genesis Engineering, and Arizona State University; Nanoracks partnered with Voyager Space and Lockheed Martin; and Northrop Grumman partnered with Dynetics, with more partners to be announced.

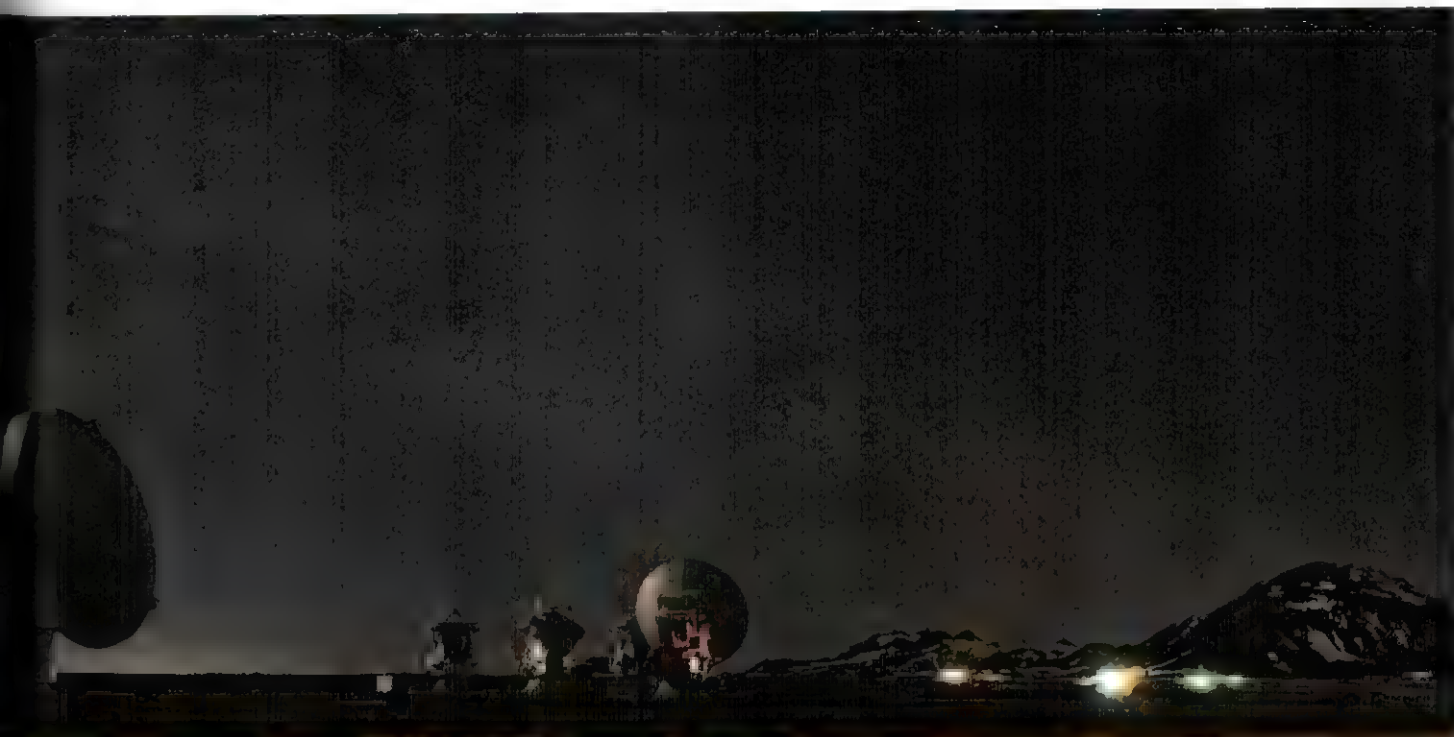
It’s not just space-focused companies and space agencies that team up: Newcomers to space are also using partnerships to explore its potential. T-Mobile has partnered with SpaceX to allow their customers to send texts or make calls via satellite when no cell towers are available, eliminating “dead zones” in the United States. General Motors is working

with Lockheed Martin to develop lunar rovers as part of the Artemis program. Caterpillar has partnered with NASA to advance technologies and equipment for remote 3D printing of space habitats from material found on Mars.

In addition, partnerships can be built to suit different levels of engagement. You may want to start by simply monitoring the activities of companies in the space economy that are likely to need your firm’s capabilities. Becoming a limited partner in a space-focused fund, for example, could give you a window into the sector and a network to help you build knowledge and relationships.

If you have an idea for a good or service you could produce or provide in space if a key partnership could be developed, make that partnership happen. Initiate exploratory discussions with companies working in space to identify mutually beneficial partnerships. It’s even worth your time to talk with companies that you suspect may turn to space soon. Axiom, Nanoracks, Spire, and many others are eager to connect with potential customers and partners to identify new applications for their capabilities.

Finally, consider tapping into the resources—financial, organizational, and technical—offered by space agencies around the world. NASA, the European Space Agency, the Japan Aerospace Exploration Agency, the Indian Space Research Organisation, and others can be powerful partners and facilitators of commercial partnerships. Roughly 90%



of the first \$1 billion invested in SpaceX came from NASA's contracting arrangements, bringing some predictability to an inherently risky venture. Today space agencies are expanding their dealings with the commercial sector, creating interesting business opportunities in space and on Earth. For instance, to develop lunar rovers, NASA is collaborating with GM and Goodyear, and JAXA has separate partnerships with Toyota and Nissan. About a third of patents filed in the United States depend on publicly funded R&D, and these are a lot more valuable than patents that don't. Companies, especially those just getting started in space, would do well to reach out to these public-sector actors as well as those in the national security sector. They can provide valuable seed funding, advice for navigating complex regulatory environments, and hard-won lessons from their experience in space.

IT TOOK ALMOST A century before the automobile achieved dominance in transportation, and automotive technology underwent many changes in that time. The first cars were little more than glorified electric go-karts and, despite the development of lead batteries, were limited in range and speed. It wasn't until the advent of the internal combustion engine that cars' potential became clear. The space industry will develop in similar ways—with uneven progress and unexpected technological twists.

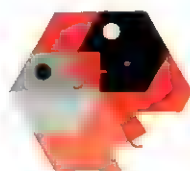
Like all industries, the space business will experience downs as well as ups. In the near term, as economies grapple with the threat of recession, the commitment of VC and other funds will certainly be reduced. Already there is talk of a space bubble ready to burst. The space industry will surely go through periods of consolidation and retrenchment, as weaker players drop out or are acquired by rivals.

Once a tipping point is reached, though, private engagement can deliver progress at great speed as entrepreneurs resolve remaining challenges. It's true that some of the deliverables may be decades or even centuries in the future. But right now the \$300 billion and growing satellite industry is poised to revolutionize an array of sectors through data and connectivity, capitalizing on designs and scale made possible by falling launch costs and advances in technology. With the immense opportunity available today, it's time to start thinking about your company's strategy for space. ☺

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DIVERSITY &
INCLUSION

The Five Stages of DEI Maturity

How to move from
promises to results



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DIVERSITY & INCLUSION

IDEA IN BRIEF

THE PROBLEM

Companies looking to make progress on diversity, equity, and inclusion goals often make big declarations or try to implement ambitious top-down strategies before they have the right culture and structures in place. Such efforts often fail, leaving marginalized employees and customers no better off and giving companies a reputation for hollow promises.

THE MODEL

Academic research and the author's experience working with firms on DEI strategy suggest that companies typically move through five stages: aware, compliant, tactical, integrated, and sustainable.

HOW TO USE IT

Knowing what stage your firm is in can help you decide where to focus your DEI energies most effectively and what questions your leadership team should be asking to keep you from getting stuck.



SINCE THE MURDER OF George Floyd, in 2020, I've spoken with countless CEOs and chief human resources officers as they responded to the racial violence they witnessed that summer. And I've noticed a pattern: Leaders first tend to express deep concern and then ask if their company is instituting all the best diversity, equity, and inclusion (DEI) programs. They are eager to know what other companies are doing and how their own efforts stack up. Many firms take action because of something they see another company do—such as publicly declaring itself a champion of people of color or setting a top-down DEI strategy across the organization. But these grand stances usually fizzle out, leaving leaders throwing up their hands and saying, “DEI work is too hard. It takes too long to see results.”



A company making big DEI moves before it's ready will most likely fail to meet its objectives, leaving minority employees and community members continually marginalized.

The fact is, DEI isn't a short-term project, and a company making big moves before it's ready will most likely fail to meet its objectives, leaving minority employees and community members continually marginalized. Moreover, doing so can give the organization a reputation for hollow, performative promises. Many companies that rushed to meet the moment in 2020, for example, pledged thousands of dollars to build racial equity but did not have a structure in place to support the implementation of new initiatives. As a result, they still haven't made any progress in improving their employees' and communities' lived experiences.

There is good news, however. More than 40 years of academic research and my experience helping hundreds of companies on their DEI journeys have shown me that companies tend to follow predictable stages on the DEI journey in sequence. When they understand which stage they're in, they can focus their energies on the right activities, making their DEI efforts more successful and making it more likely that they'll keep progressing.

In this article I describe the five stages: *aware*, *compliant*, *tactical*, *integrated*, and *sustainable*. For each one, I include questions for leadership teams to ask themselves to focus their efforts and keep moving forward. Although there's no one-size-fits-all DEI solution, a typical journey through these stages includes connecting top-down strategy and bottom-up initiatives around DEI, developing an organization-wide culture of inclusion, and, ultimately, creating equity in both policy and practice.

Aware

For many companies, the process of being intentional about DEI begins with a trigger—for example, a lawsuit, being called out by investors, or a traumatic experience such as George Floyd's murder. That gut punch of awareness can prompt soul-searching and a genuine desire to change course.

Companies entering the aware stage generally fall into one of two camps: successful older organizations that have never prioritized DEI or start-ups so deeply focused on survival that they've neglected to create strong human-capital practices. After a wake-up call, both camps often make high-minded public statements about their attitudes and

intentions toward DEI. But what's really needed at this point is for them to be honest internally—especially within the leadership team. Leaders should ask themselves:

Why does DEI matter to us personally? Understanding colleagues' personal experiences of diversity or discrimination inside and outside the organization builds a necessary foundation of shared understanding and trust for further strategy work and for speaking with the broader organization about these topics.

Where do we want to go? Setting a collective internal vision for the company's DEI work will help point you in the right direction as you get started. Leaders will have differing ideas of what DEI should look like, especially when they come from a broad range of backgrounds. So they must first agree on a vision of where to focus: Diversity of employees, having a better relationship with the community, building a more inclusive culture, and fixing the brand's reputation are all appropriate goals. Ultimately, companies should be doing *all* these things, but when they are just starting out, they need a specific target.

When setting goals, companies should take particular care to avoid benchmarking themselves against companies that may be at a later stage of DEI maturity. For example, the ice cream maker Ben & Jerry's, whose cofounders are the longtime social-justice activists Ben Cohen and Jerry Greenfield, boldly stated, "We must dismantle white supremacy" on its corporate web page and social media accounts in 2020. That is laudable, but if a company hasn't already built the structures and culture to act on such a stand—as Ben & Jerry's had—it will appear performative. Instead of making sweeping statements, companies in the aware stage should choose a narrower, more tactical goal.

Iora Health, whose mission is to "restore humanity to health care," is working to transform primary care. Since its founding in 2011, the Boston-based organization has opened 48 practices in 10 states and reduced hospitalizations of its patients by more than 40%. (It has since been acquired by One Medical, which Amazon recently announced plans to buy.)

In June of 2020 Iora's cofounder Alexander Packard was shaken by the news of George Floyd's murder, and he knew that it was affecting his teams as well. He spoke candidly with four Black leaders in the organization, asking questions about race and racism, subjects he had never broached with



Companies that have moved past the compliant stage have used the requirements imposed by regulations not as end goals but as springboards.

them before. He was surprised to learn that many Black and Brown employees had never felt supported at the company. He had always assumed that Iora's mission—which led it to serve many people in marginalized groups—meant that it didn't need an intentional approach to DEI, but he realized that wasn't the case.

I led Iora's full leadership team in a two-part conversation about its DEI vision. During the first part, leaders spoke of their experiences with race. Some acknowledged that they had been largely unaware of issues of race and privilege; others shared deeply personal experiences from their childhood and professional life. The second part of the conversation built on the emotional momentum of the first. The leaders admitted that they weren't sure they were all aligned on the kind of diversity efforts they were looking for. They shared their own visions of what DEI should mean for the organization and then worked together to define what DEI would look like at Iora. They determined that for them, it meant serving a diverse patient population—including patients who might harbor racial biases—as well as supporting their Black and Brown team members. Navigating that tension has formed the basis of their DEI policies ever since.



Compliant

Companies need to meet many industry and government requirements for diversity, such as EEOC laws in the United States. Additionally, businesses that have been subject to DEI lawsuits may have agreed to certain settlement terms. Some companies might pursue voluntary compliance and compare their DEI goals with those of competitors. At the compliant stage the thinking is typically, *We do DEI because we have to*. It's worth noting that a company could be compliant without ever going through the aware stage, but it would be ill-equipped to proceed any further without the foundational work done there.

Nearly a third of companies today find themselves in the compliant phase, according to a study of more than 10,000 knowledge workers in the United States, Australia, France, Germany, Japan, and the United Kingdom (see the exhibit "A Snapshot of Companies' DEI Progress"). This is partly good news: There is certainly a benefit to compliance. Regulations and requirements can spark meaningful changes in

organizations because their terms and goals are so concrete. Whether it's talent selection, performance reviews, or diversity training and mentorship programs, companies are given specific direction on change. They often set up scorecards and use performance scores to determine leaders' bonus compensation. And doing the work to fulfill the specific terms of a compliance settlement can help an organization rebuild a reputation tarnished by poor DEI practices.

Still, it's notable—and concerning—that many companies become stuck in this stage. Just because a company is compliant doesn't mean its diversity initiatives are mature or connected with the organization's overall strategy. Many leaders of firms in this stage have not done the soul-searching needed to make real changes to their cultures. And although their diversity numbers may be good at the frontline level, employees from minority groups may still feel unsupported or unable to advance. Furthermore, research has shown that without an inclusive culture, a diverse workforce will not yield the tangible benefits of teamwork, creativity, better problem-solving, and so on. To go beyond the compliant phase, leaders should ask:

Where can we set goals that are bigger than our compliance targets? Companies that have managed to move past this stage have used the requirements imposed by regulations not as end goals but as springboards for further efforts. For example, they push themselves to exceed their metrics for success or keep incentives in place long after regulatory requirements expire.

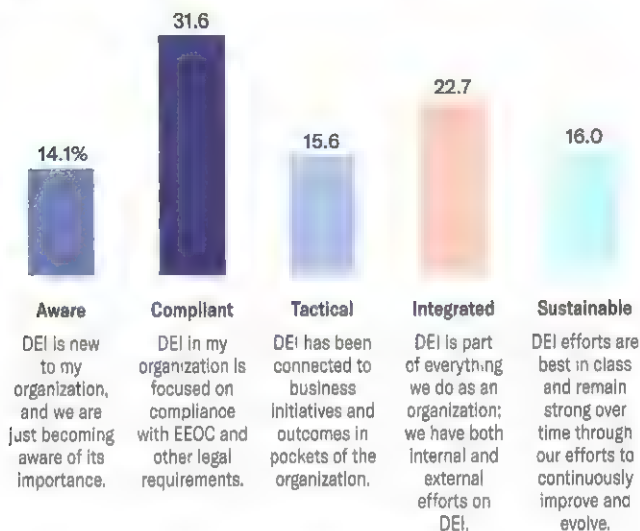
How can DEI help us to meet our other goals? Moving on from the compliant stage can be challenging because it requires the wholehearted buy-in of senior executives and managers who may never have experienced the kinds of discrimination you're trying to fight. To get them on board, show them how DEI efforts can help your organization achieve its specific mission, values, and goals. While there is a risk that highlighting the business case for DEI obscures the ultimate ethical point that everyone should be treated with respect and have an opportunity to succeed, history has shown us the limits of moral conviction around DEI in the workplace.

In the 1990s the Denny's chain of fast-food restaurants was mired in numerous racial-bias lawsuits and scandals. After first contesting the suits, Denny's eventually settled

A Snapshot of Companies' DEI Progress

A 2022 survey conducted in partnership with Slack's Future Forum asked more than 10,000 knowledge workers across 54 countries to evaluate their companies' DEI performance. Nearly a third of organizations are stuck in the compliant stage; the study revealed

Which of the following statements best describes your company's approach to diversity, equity, and inclusion?



with a large payout and a consent decree, which required the company to create written antidiscrimination policies, inform the public of those policies, provide training to all employees, and monitor and report any future incidents.

In 1994 Denny's hired April Kelly-Drummond to lead its diversity initiatives; under her guidance the company surpassed the terms of its consent decree. For example, the settlement mandated that all employees attend diversity training within 90 days of joining Denny's and attend a second session within 270 days; Denny's tightened those requirements to 75 days and 225 days. In fact, the company's strong performance led to its release from oversight by the Office of the Civil Rights Monitor a year early. After its release, Denny's didn't let up: It even placed a toll-free number in every restaurant to encourage others to help identify problems. The company also tackled bias in hiring beyond the scope of the original decree, broadened its recruitment efforts, and built a promotion pipeline. Further, it instituted an incentive structure around DEI goals. For example, 25% of senior management's incentive bonus was tied to the advancement of women and minorities.

In the 30 years since the lawsuits, Denny's has gone above and beyond the consent decree's original mandate, and its



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whole culture has changed. The chain has recaptured sales, repaired its reputation in local communities, and been named one of *Newsweek's* best places to work.

Tactical

Organizations in the tactical stage have moved beyond meeting the rules imposed on them and are fully engaged in executing their own DEI initiatives, which tend to be bottom-up. These companies might have flourishing grassroots efforts such as employee resource groups (ERGs) and teams that institute their own DEI processes—perhaps community guidelines for handling microaggressions or appointed devil's advocates in meetings to make sure diverse opinions are heard. There may be some top-down strategy or programming, such as a celebration of Pride month, but it is largely executed independently by individual managers. Companies at the tactical stage are on their way to changing their cultures: Employees at all levels may engage in tough conversations about bias and give one another feedback; groups may take care to improve diversity of thought in their decision-making.

Yet companies in this stage typically still lack a strategic DEI approach that drives the entire business. Uncoordinated efforts mean that one area of the organization may champion DEI efforts while other areas ignore them. Consider Nike: Its 1988 "Just do it" campaign famously featured commercials for all customers regardless of age, gender, or physical fitness level, and the company publicly supported Colin Kaepernick in 2018 after his protests against racial inequality and police brutality. But Nike also has a troubling history of DEI offenses. In 2003 the company settled a racial-discrimination lawsuit filed by 400 employees, and in 2018 it faced a gender discrimination lawsuit alleging unequal pay for women and a hostile work environment. As we might expect with a company in the tactical stage, Nike's DEI efforts have been uneven, excelling in some customer-facing units but proving woefully inadequate in other areas. To better align their organizations, leaders should ask:

What's our strategy? You need to start defining an overarching DEI strategy that brings all your company's efforts together. Still, don't shoot too high: Companies that are most successful in implementing a new DEI strategy home in on



DIVERSITY &
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a short list of priorities that can be connected to short- and long-term goals and metrics.

Where do we need to standardize? Do different units approach basic practices such as hiring differently? If some departments have made progress in creating an inclusive culture, learn from them and replicate their policies.

How can we connect DEI work up and down the organization? A feedback loop between team members, managers, and senior leaders is critical to the success of a DEI strategy. Executive buy-in can help clear cultural obstacles within a company and build a communal sense of responsibility for programs. Holding regular meetings between senior leaders and the leaders of grassroots efforts like ERGs can give you a good sense of whether your DEI efforts are improving corporate culture.

What is our full sphere of influence? Your company touches people beyond its employees: Take a close look at the impacts of discrimination or inequity across internal and external stakeholders, including employees, customers, partners, suppliers, shareholders, competitors, and your community. Look for ways to reduce existing inequities and build inclusion with those stakeholders as well.

The productivity-software firm Slack, which is in the tactical stage, has taken a decentralized and often employee-led approach to its DEI efforts. The company has encouraged employees to create an array of identity-based communities, and thus its DEI efforts are in large part the work of ERGs.

To ensure that these groups are more than social venues or places for commiseration, company leaders have made a concerted effort to regularly connect with them. Their monthly meetings uncover employee concerns and give ERGs early insight into the direction of the company and an opportunity to influence that path. ERGs also serve as a testing ground for new process ideas. ERG sponsors, meanwhile, are better able to understand the needs of employees and can give the groups greater exposure across the organization.

Slack has now begun to standardize some DEI processes. After the company created guidelines for interview questions to ensure that each candidate was treated similarly, regardless of the interviewer, the number of women in technical roles grew by almost 5% in a year. And Slack has brought its DEI gains to its larger sphere of influence with the introduction of Slack for Good, an initiative that aims to

increase the number of people from historically underrepresented communities in the technology industry.



Integrated

Once an organization has aligned internal and external efforts and connected top-down and bottom-up efforts, it has reached the integrated stage. An integrated organization has defined its DEI strategy, developed a culture of inclusion, and taken a close look at the impacts of discrimination and inequity across its internal and external stakeholders, seeking to address those challenges. Companies in this stage can truly say, "DEI is part of everything we do."

Despite this achievement, humility is the most common attribute of companies in this stage. For most, reaching this level has required experimentation to learn what works and what doesn't. Leaders of companies with long-standing and celebrated DEI programs must be modest enough to change course if what they are doing isn't working.

Leaders also worry that their success or even their efforts may be short-lived. DEI advances can often be linked to a particular event, to favorable market conditions, or to a particular leader's passion. To move on from the integrated stage, leaders must ask:

What systems and structures do we need to create? The current passion for and attention to DEI needs to be encoded in the way that the company works so that it persists beyond one leader's tenure or the current market cycle. The company needs to build programming that removes the burden of continuing the drumbeat for DEI from the shoulders of people in underrepresented communities themselves.

Why not? To move into the sustainable stage, companies must challenge the status quo and do things that simply weren't done before. They must also regularly evaluate the effectiveness of what they are doing for its impact on people and the business.

A common assumption I encounter in my work is that minority-owned businesses don't need to put as much effort into DEI. This assumption couldn't be more wrong, for many reasons. DEI goes beyond representation alone. Every organization, no matter its demographic makeup, must be intentional about the equitable nature of its systemic structures, such as hiring and promotion, and must focus on making the culture diverse, equitable, and inclusive.

Uncle Nearest is a whiskey distillery founded by Fawn Weaver, a Black woman who was inspired when she read the story of Nathan "Nearest" Green, an enslaved man in Tennessee who applied water-filtering techniques he had learned in West Africa to whiskey and became the first master distiller for Jack Daniels. Weaver launched a new



The work of DEI is never done. Without continued vigilance, even organizations in the sustainable stage can slide backward.

distillery to honor his name; in a few short years it became the fastest-growing whiskey brand in the country and is now the best-selling African American–owned and African American–founded spirit brand of all time. Weaver built the company from the start with a clear DEI strategy, a goal to change her larger industry, a culture of confidence and self-expression, and a requirement for diversity in hiring.

But when Weaver tried to fulfill her vision for diverse recruitment, she couldn't find enough Black talent to hire. "One of the things I realized was that if I wasn't getting résumés of African Americans, then nobody in the industry was," she explains. "So the question became 'How do we get more African Americans interested in the spirit business? How can we be creative about building this longer-term pipeline?'" Weaver broke traditional hiring rules to achieve her goals: For example, she left positions open longer than her competitors did—up to two years—to maintain demographic diversity on her teams. Her willingness to challenge the status quo and think big has helped her to establish Uncle Nearest and ensure that its mission and commitment to DEI will outlive her tenure at the company. Uncle Nearest, founded in 2017, is still a new company, so it's hard to say it has reached the sustainable stage yet, but it is on its way.



Sustainable

Organizations whose DEI efforts are deeply embedded in their corporate DNA have entered the sustainable stage. Their DEI efforts pass stress tests such as economic challenges and changes in leadership, and their leaders have a mindset of continuous improvement.

Take the technology giant Intel. In 2015 then-CEO Brian Krzanich announced a \$300 million five-year plan to bring the company's workforce to "full representation" by 2020, initiating programs such as a \$4,000 bonus for employees who successfully referred candidates from marginalized groups and a \$5 million partnership to develop a high school computer-science curriculum for the Oakland Unified School District. In just six months the number of female and minority hires had surpassed the initial 40% goal for the year. Over the course of Krzanich's tenure hires from underrepresented communities increased by 31%, and Intel's female workforce increased by almost 43%.

But in 2018 Krzanich resigned after violating a non-fraternization policy with a colleague. Such a charged change in leadership could have meant an end to the policies championed by the outgoing leader. But Intel's next CEO, Robert (Bob) Swan, continued to set ambitious DEI goals. For example, in 2020 Intel pledged to increase the number of women in technical roles to 40% and to double the number of women and underrepresented minorities in senior roles by 2030. Swan left Intel in 2021, but that hasn't slowed Intel's commitment to DEI. According to its Corporate Sustainability Report 2021–2022, the company extended its Inclusive Leaders program and integrated the inclusion content into its Manager Academy training, which it began rolling out to its 13,000 managers. In 2021 it required all hiring managers to receive training in inclusive hiring practices. Further, it has initiatives in place to "increase the number of women hired for technician, engineering hardware and software roles" and has tied increased representation of women in technical roles to an annual performance bonus goal for all employees in 2022. DEI has become integral to its culture.

THE WORK OF DEI is never done. Without continued vigilance, even an organization that has designed systems and structures to remain sustainable through change can easily slide backward. True commitment to DEI requires continuous improvement by reassessing strategies and initiatives as the organization grows and as the world changes. For example, if you open your first-ever office in India, you will have new DEI challenges to solve. The same is true if some event in the world shines a bright light on inequity that you hadn't known was there.

Regardless of which stage you're in, knowing where you are on your DEI journey can help you focus on the right questions to keep moving forward. 📌

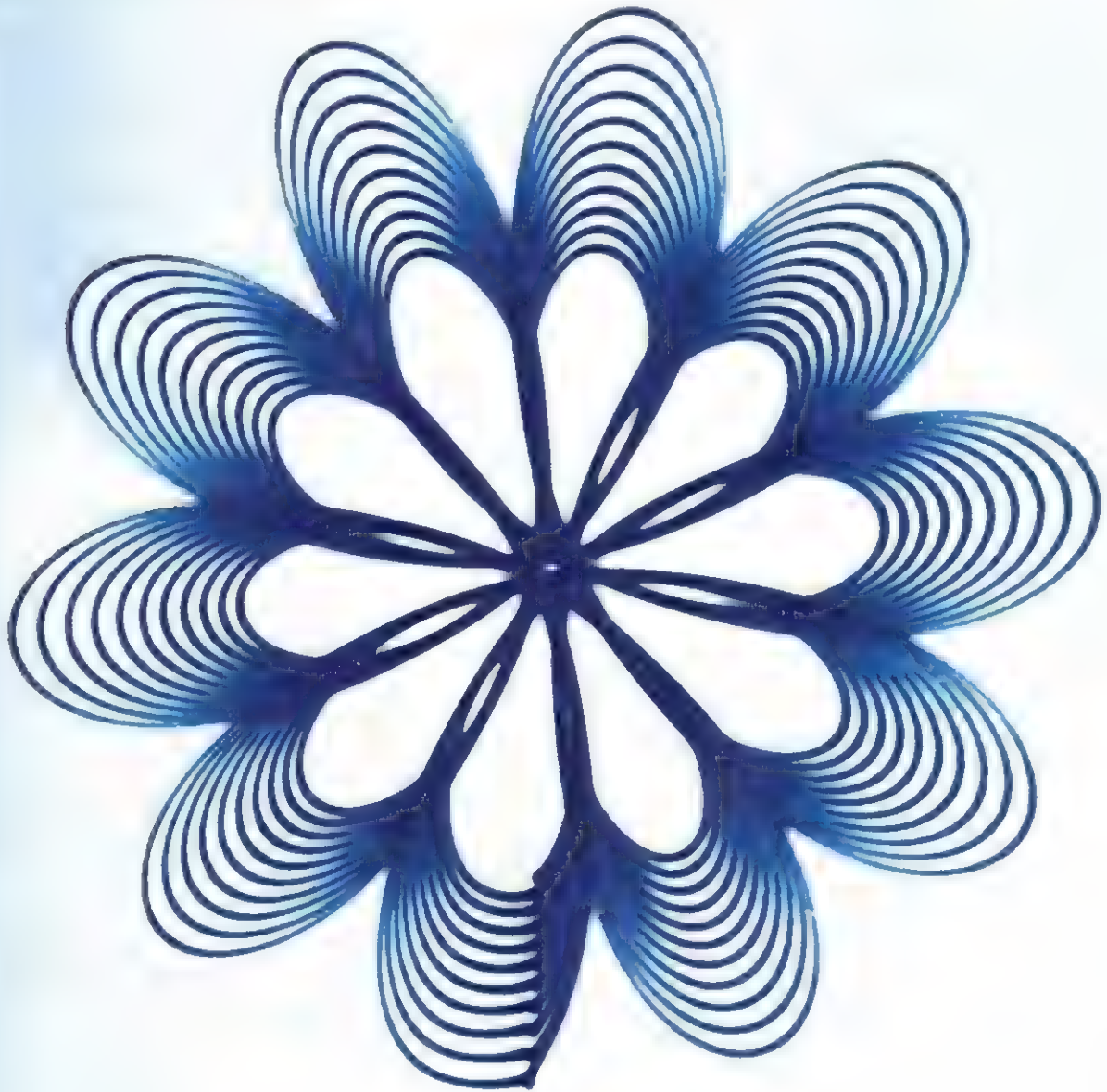
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She is the author of *The Necessary Journey: Making Real Progress on Equity and Inclusion* (HBR Press, November 2022), from which this article is adapted.

FROM ***prediction*** TO
transformation



To realize their potential,
AI technologies need new
systems that leverage them.



AI & MACHINE
LEARNING

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ILLUSTRATOR RALF JACOBS

Harvard Business Review
November–December 2022

101



INVESTOR: "WHAT WILL your artificial intelligence do for businesses?"

Start-up founder: "It will give them insights."

We wish we had a dime for every time an entrepreneur gave that answer to the mentors and investors at the Creative Destruction Lab, a global seed-stage start-up program we created at the University of Toronto.

Though it's the stock response, "insights" is precisely the wrong way to think about how an advance in AI will create value. In fact, we feel that "insights" often is code for "We don't know what to do with our AI's predictions."

A much better answer would be to describe the *decisions* that the predictions will improve, because AI has value only if it leads to better decision-making.

The good news for entrepreneurs is that the opportunities for AI to do that are countless. The number of decisions businesses make has been rising, and the need to make the right ones—in every area of operations—has never been greater. Consider that in 1960 just 6% of jobs required core decision-making skills such as problem-solving, diagnosing, strategizing, and prioritizing, according to research by David Deming of the Harvard Kennedy School. By 2018 that number had reached 34%.

But as we'll show in the following pages, implementing AI isn't just about improving specific decisions. Decisions in one area of an organization usually have an impact on decisions made in others, so introducing AI often entails revisiting and redesigning whole systems of decision-making. Let's begin by looking at a specific example of an initiative where that was the case and how AI ended up completely changing the way the system involved created value.

HOW NEW ZEALAND WON THE AMERICA'S CUP

Sailboat makers and sailors have been refining their techniques for 5,000 years. Even though commercial shipping no longer relies on wind for propulsion, innovations in sailing have never stopped.

The top prize in sailing (and the oldest trophy in international sports) is the America's Cup. Today the race is as much about technology as about the skills of the crew. Millions of dollars go into boat design. Since the physics of wind, water, and ships are well understood, competitors use simulators to identify the most effective designs and to test boats without actually building them. The team with the best simulator gains a big advantage, as Emirates Team New Zealand discovered in 2017, when it won the cup.

As the members of the team planned for the 2021 race, they wondered if they could speed up the design process. Partnering with McKinsey, the global consultancy, they identified the main bottleneck to innovation: human sailors. It takes time for a human crew to sail a boat in the simulator; there's no way to increase the pace at which its members react to conditions and maneuver the boat in response. The sailors work on a human time scale, and that isn't fast enough.

Using technology similar to the AI that beat the world's top players of the popular strategy board game Go, the team taught an AI program to sail. The bot didn't need to sleep or eat, and it could run thousands of simulations in the same time that it took the human crew to run just a handful. After eight weeks the AI started to beat the sailors in the simulator.

That's when things got interesting. The AI began teaching the human sailors new tricks. As a member of the development team told *Wired* magazine, "The bot was actually doing things that felt counterintuitive to the sailors, but they'd try them out on the water and they'd actually work." Previously, the boat designers had needed humans to test out any innovation. Figuring out the best way to use a newly designed boat could take weeks.

The AI, in contrast, could experiment with multiple variations of the boat simultaneously, 24 hours a day. It could try different racing tactics. It sped up the cycle of design iteration and the development of new maneuvers. Once the AI figured out a superior solution, the human sailors could copy it. As one team member put it, "Accelerating the learning



ABOUT THE ART

Inspired by his professional work in optical modeling software and studies of optical aberrations, Raif Jacobs combines 19th-century cyanotypes, digital harmonographs, and software-guided laser projections in his art to create an endless variety of intricate elliptical line drawings.



IDEA IN BRIEF

THE PROBLEM

AI predictions often improve the quality of specific decisions but can have a disruptive effect on overall systems of decision-making.

WHY IT HAPPENS

Decisions are usually a combination of prediction and judgment. When predictions are extremely accurate, as can be the case with AI, decision rights will flow to where judgment is still needed, potentially changing who makes decisions and where, when, and how. And more-accurate predictions in one part of a system will have ripple effects on other parts.

THE SOLUTION

In the absence of perfect instant communication, organizations and whole value chains need to create systems that balance modularity in design with coordination. Modularity enables many decisions to be made on the basis of locally observable factors, while coordination enables decisions to be optimized over a wider network.



Two decades after Edison switched on the light bulb, only 3% of U.S. businesses used electricity.

process is extremely valuable, both in terms of allowing the design team to explore as much of the design space as possible and the sailors to maximize performance for a given design.” That year Emirates Team New Zealand claimed the trophy, winning seven races to three.

Why was this use of AI so novel? Setting aside the impressive technology that allowed for simulations in complex environments, the key impact was at the system level. The AI wasn’t handing Emirates Team New Zealand some insights. Instead, it was being built into a system of decision-making.

Race preparation involves two types of decisions: those about boat design and those about sailing maneuvers. While simulators had long been used for boat design, the maneuvers had always been worked out by humans. The AI didn’t actually pilot the boat in the race—the rules still require that real boats be piloted by real people—but it sped up the innovation process and allowed better coordination between boat design and sailing maneuvers. The complete system of the simulated boat and the AI sailor enabled improvements to both kinds of decisions.

WHY SYSTEM CHANGE TAKES TIME

It can take a while for the systemic impact of a new technology to become apparent. When a technology emerges, people initially apply it narrowly. When electric power was invented as a substitute for steam power, for instance, businesses used it where the water needed for steam was hard to come by. Two decades after Edison switched on the light bulb, only 3% of U.S. businesses used electricity. Similarly, in 1987, decades after the introduction of computers into businesses, the economist Robert Solow noted, “You can see the computer age everywhere but in the productivity statistics.” The potential of computing was clear, but the impact remained muted.

The same thing has happened with AI. Despite some alternative branding, new AI technologies are basically advances in statistics. They make it possible to predict more-multifaceted outcomes and, in doing so, take advantage of data that otherwise might be unexploited. And their initial applications were focused on what they could immediately deliver: better and cheaper predictions than humans were making.

Translation software, an early application of AI, is a good example. It predicts how people would translate a given

text from one language to another on the basis of how real humans have translated previous texts. AI classifying medical images, another early application, predicted what expert radiologists would say that scans showed. Both applications leverage the wisdom of the crowd, which can often make far more accurate predictions than one person can. Applications like these can have enormous commercial value. Take the Canadian company Verafin, which was acquired by Nasdaq for \$2.75 billion. Why? Because its AI-driven technologies for identifying financial fraud were being used by hundreds of financial institutions as a substitute for the security teams that used to perform that function.

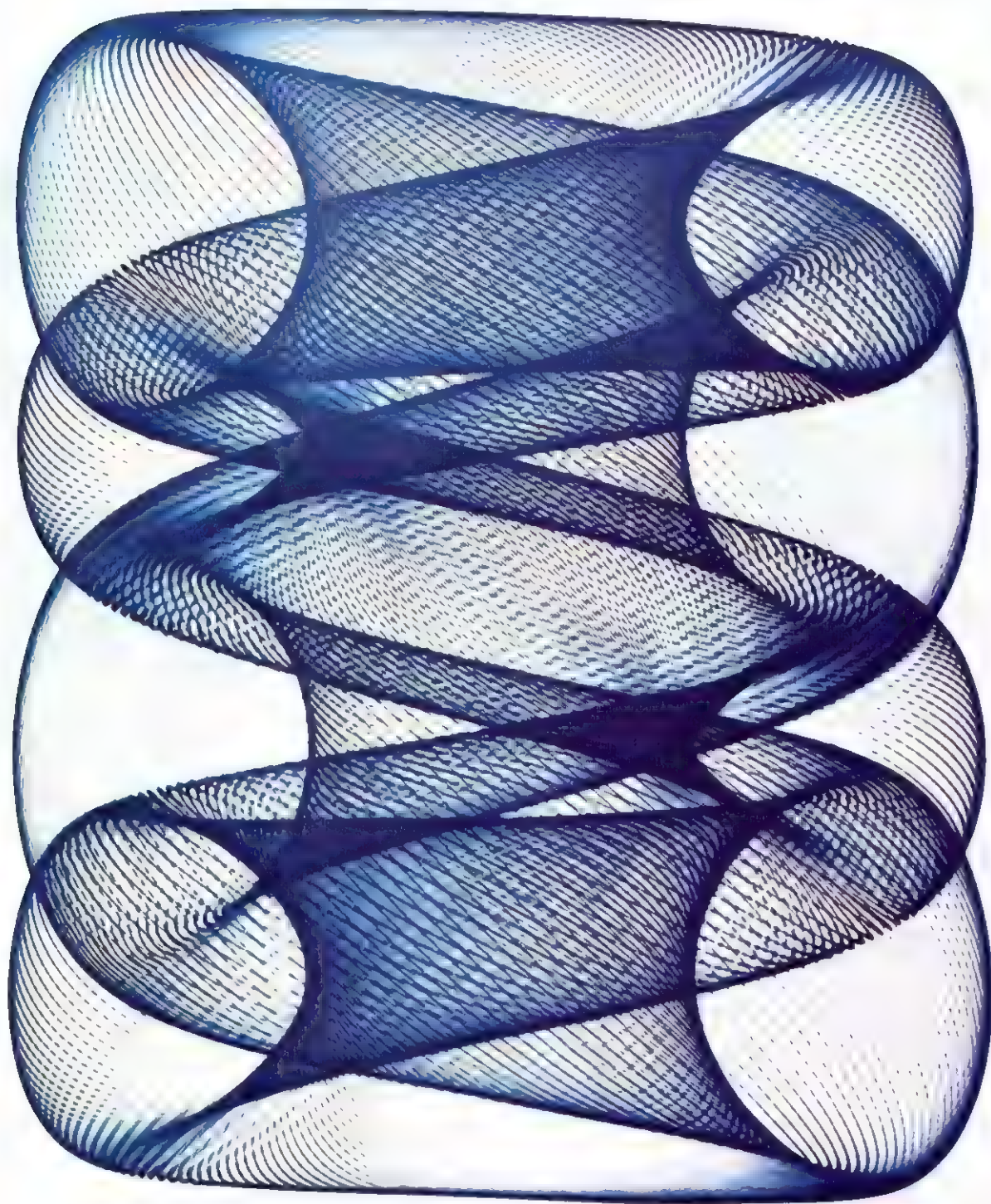
These new applications may drive some important advances, but they’re hardly transformational. They slot into existing businesses without much fuss, precisely replacing the humans who traditionally made predictions. In all other respects, the businesses are unchanged.

But when we consider the impact of electricity and computerization, we don’t think of narrow applications; we think of transformation. Thanks to electricity, factories no longer had to be located near water and have multiple stories to optimize the use of steam. They could be located hundreds of miles away from a water source and spread out on the same floor, making a new type of mass-production system feasible. Computers had the same impact. They evolved from being glorified calculating machines into what Steve Jobs described as “bicycles for the mind”—not substitutes for it.

And that’s the real lesson from the America’s Cup. Emirates Team New Zealand didn’t take the people out of the process. Yes, it is possible to imagine a fully automated solution that makes every decision. But that approach is surely a rarity. AI prediction provides information that improves decisions, which are made by people. Interestingly, with AI the difference is not so much whether machines do more but who the best people to make decisions are.

HOW AI IS CHANGING DECISION-MAKING

When Apple launched the smartphone revolution, no one thought, *It’s curtains for the taxi industry*. But ride-sharing was possible only because internet-connected mobile phones allowed people to hail rides through an app and get navigation information cheaply. In London, for instance,





it takes three to four years for cabdrivers to learn all the city's streets and the best routes through them. Today AI on smartphones allows anyone to predict the best routes there, taking into account traffic conditions. If smartphones didn't exist, the taxi business might still be thriving.

Most decisions require two things of the decision-maker: the ability to predict the possible outcomes of a decision, and judgment. Prediction is largely based on data. (Given the available routes and the traffic conditions, how long is the trip likely to take?) Judgment is basically a subjective assessment of contextual factors that are not easily reduced to data. (Will this customer prefer a quick trip or the scenic route?)

Taxi drivers have both skills. Ordinary drivers are more limited; they can gauge passenger preferences (judgment) but are less adept at navigation (prediction). But pair ordinary drivers with navigation software, and they match taxi drivers. Add a platform that eliminates the need for a mileage meter, a method of taking payment, and a central dispatcher who assigns drivers to fill pickup requests, and any driver with access to the platform can offer rides.

The platforms and their AI had two important effects. First, vastly more people could now be involved in making decisions about rides, and second, drivers' control over decisions decreased. Because the ride-share platform could match drivers and passengers and identify the best routes, all the drivers had to do was focus on providing comfortable and pleasant rides that satisfied the customers assigned to them. Those two effects weakened the power of traditional taxi drivers and transformed the industry.

In some cases, AI simply concentrates decision-making without changing who has control. Look at the hiring process, which in most large organizations is managed by the human resources department. Traditionally, hiring has involved a great many HR people who make a lot of small decisions, especially about screening applicants, which can require teams of people looking through hundreds of résumés in order to identify promising candidates to interview. Thanks to AI, one HR executive can decide what criteria to use to decide who gets an interview. The basic process and the key decision-maker remain the same, but fewer people are needed.

In other cases, AI radically centralizes decision-making, completely changing how and where it happens. Credit card verification is a case in point. Before the rollout of connected

devices that automatically validate cards, merchants would make their own judgments about whether to accept someone's card. They could reject it if they suspected fraud—for instance, if someone's signature didn't match the one on the card or a customer didn't have supporting ID. And they could readily accept cards from regular customers. But systems driven first by crude database checks and now by AI prediction have automated the process. Credit card purchases are approved according to rules set by a small group of people, most likely a committee, which creates the risk parameters embedded in the programs that run verification devices.

In still other cases the introduction of AI not only leaves decisions in the hands of existing decision-makers but makes their (more decentralized) judgment more important. The use of AI in medical imagery is a case in point.

Treatment decisions arising from a diagnosis are and always have been made by the patient's physician. But before the advent of AI prediction, a physician would often call in an expert radiologist, who would perform a medical imaging procedure like an MRI, ultrasound, or X-ray and use his or her judgment to make a diagnosis. In effect, the decisions of the radiologists were needed for the physicians to make their decisions. With AI-enabled diagnosis replacing the radiologist's judgment, the only judgment now involved in treatment decisions is that of the patient's physician. That consequently makes the physician more important and powerful and the radiologist less so.

In all these cases the application of AI has changed how and by whom decisions are made. But the introduction of AI into your company's decision-making doesn't affect just you. It also affects your partners in the value chain and the ecosystem you operate in. What works for you may create problems for them. Let's look now at how that can happen.

HOW AI SHIFTS UNCERTAINTY

Imagine you're running a restaurant. Diners come in and order meals. The cooks then make them. At any given time there are constraints on what dishes they can make, which are driven by the skill of the chefs, the total number of orders, and the availability of ingredients and equipment. If you allow your customers to order any dish they might fancy, there will be problems.

● The introduction of AI into your company's decision-making doesn't affect just you. It also affects your partners in the value chain and the ecosystem you operate in.

What you do, therefore, is set a menu. You limit the choices of your customers so that you can actually make what they order. From the perspective of the kitchen, the menu creates reliability and prevents unexpected surprises. Every week you need to order ingredients, which are based on the menu. If guacamole is on the menu, you need avocados. You order 100 pounds every week. Sometimes that's too much, and you throw out the excess. At other times 100 pounds is too little, and you miss out on sales.

Let's say you adopt AI for demand forecasting (what customers will choose), and you find that it works. Now some weeks you order as little as 30 pounds. Other weeks you need 300 pounds. You waste less and sell more. Profitability rises.

But your local supplier has been used to buying 100 pounds for you each week. Now it faces more unpredictability because of you. Its other customers are also using AI for demand forecasting, and demand starts to fluctuate wildly. So the supplier decides to adopt AI for its own demand forecasting. It used to order 25,000 pounds of avocados a week. Now its order varies from 5,000 pounds to 50,000 pounds. Your supplier's source of the fruit, in turn, needs to develop AI, and its orders begin to fluctuate too. And so it goes all the way to the growers who need to make crop-size decisions a year or more in advance.

What this shows is that while AI can be used to resolve one person's uncertainty, that effect doesn't spread to decisions throughout a system. The fundamental problem—that demand needs to be aligned with supply—hasn't really been solved. Like a stone thrown into a pond, your own AI solution has ripple effects on other decisions in the system.

That leaves us with something of a paradox. The value of AI comes from improving decisions by predicting what will happen with factors that might otherwise be uncertain. But a consequence is that your own decisions become less reliable for others. Introducing AI into the value chain means that your partners in it will have to coordinate a lot more to absorb that uncertainty.

COORDINATING SYSTEMS TO ALIGN EFFORT AND RESOURCES

The restaurant manager has to make several other decisions besides predicting demand—for example, what to offer

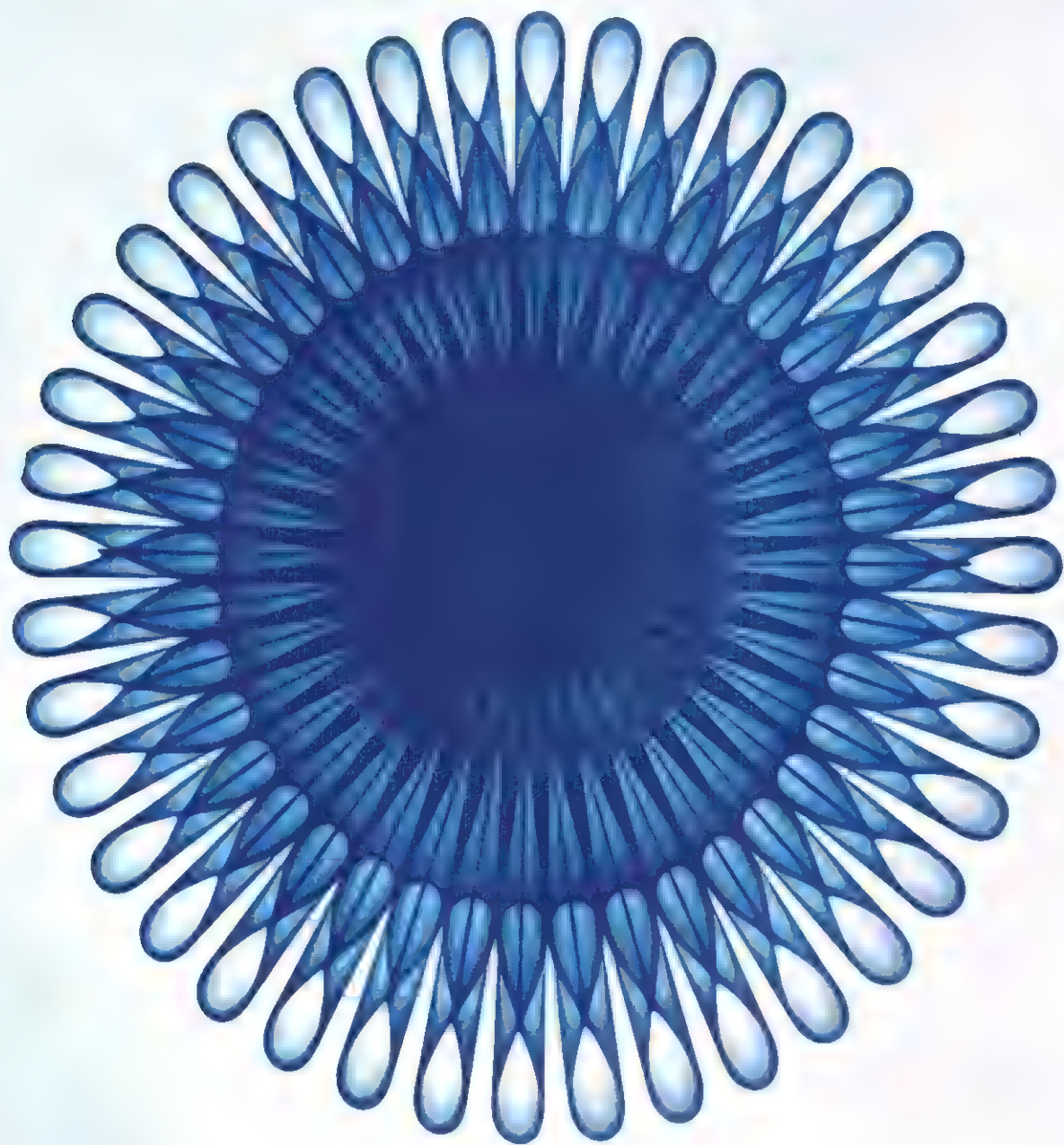
on the menu. If the AI ripple effect means that the grower can't supply enough avocados, then the restaurant needs to change the menu. It probably won't do so unless it knows the avocados aren't available, which requires coordination across decision-makers. That coordination has two aspects:

Synchronizing the work. Consider the operation of a crew team of eight rowers. Two things determine how it will perform in a race: whether its members are rowing in unison, and how they adjust rowing speed as the race progresses to ensure that no one on the team runs out of energy before the finish. The coxswain, who sits at the back of the boat, is essential for the second but not the first function. That might seem surprising, since the coxswain is coordinating the rowers to keep the same time by calling out, "Stroke! Stroke! Stroke!" But that task doesn't require a separate person; one of the rowers could do it, and in fact, this occurs in races in which crew boats don't have coxswains. But when it comes to monitoring strategy in a race and obtaining cues about the status of individual rowers—that is, gathering information and aggregating it—the coxswain is critical. The coxswain can assess the need for changes in the team's rhythm and adjust the message to rowers accordingly. The coxswain is there because the team needs to ensure that adaptation is made in a synchronized fashion.

Assigning resources. The coordination challenge also involves a class of problems that Paul Milgrom and John Roberts call *assignment problems*—situations in which you need to assign resources to an activity but you know that only a certain amount of them will be used. Any more would be wasted; any less would be insufficient. Consider ambulance dispatching. If all the ambulances in a network received an emergency message and then chose individually whether to respond, you would often end up with no responders or with too many. To ensure that only one responds, you need a central dispatcher, whether human or software, that receives calls (that is, information) regarding an emergency and then assigns one ambulance to respond. In this case sending the "wrong" ambulance (one that is perhaps too far away or doesn't have the right equipment) is far less of a problem than sending none or sending too many.

Both coxswains and dispatchers are communication systems that ensure that the bad outcomes that could arise from a lack of synchronization or poor resource assignments don't

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- The adoption of AI will often involve a system that finds an optimal balance of modularity and coordination.
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occur. Similarly, when AI causes coordination problems, new communication systems may be required to overcome them. It is through smart investment in coordination that organizations will be able to fully realize the promise of AI.

So what does “smart” look like in this context?

COMBINING COORDINATION WITH MODULARITY

Ideally, a system would be able to coordinate entirely through communication, as crew coxswains and ambulance dispatchers do. But communication isn’t always enough. A restaurant can’t create alignment along the supply chain through communication alone because its chain spans thousands of kilometers and many months. The investment would be prohibitively expensive and time-consuming.

What’s the solution? Let’s consider the operations of Amazon. It supplies millions of products all over the world. That involves procuring them, storing them in warehouses, capturing customer orders, and shipping items to those customers. But it also involves helping the customers work out what to purchase in the first place—that is, providing them with recommendations. Amazon faces the same problem our restaurant does. It wants to supply customers with what they want when they want it, but products don’t magically appear, because their supply chains are complex.

Let’s say that Amazon’s AI-based recommendation engine predicts that the best product to suggest to a customer is probably unavailable. What should Amazon do?

It’s tempting to think that if you don’t have a product available, you shouldn’t recommend it to a customer. The problem is, how do you know whether the AI’s prediction was correct, and the customer really wanted it? If you recommend only what you have, you miss opportunities to learn and grow.

That’s precisely why Amazon includes recommendations for products that are out of stock and will take longer to reach its customers. The decisions are coordinated in the sense that Amazon communicates the likely delay to the customers. The customers may well choose products that are available, but occasionally they won’t. Amazon then learns how much effort it needs to make to carry inventory for the out-of-stock items.

Achieving this balance requires careful design. Amazon has a modular organization that has allowed it to slot

better AI predictions into recommendations that minimize the impact on the rest of the organization. But the inventory and ordering decisions it makes cannot be fully independent from the AI recommendation system precisely because customers’ choices and reactions give rise to information that needs to be acted on by the logistics department.

The adoption of AI will often involve a system that finds an optimal balance of modularity and coordination. Modularity insulates decisions in one part of the organization from the variability—the ripple effects—that AI creates in others. It reduces the need for reliability. Coordination, in contrast, counters the lack of reliability that comes alongside AI adoption. Successful AI systems enable coordination where possible, and modularity where necessary.

AS WE HOPE will be clear by now, the promise of AI’s prediction technology is similar to that of electricity and personal computing. Like them, AI began by resolving a few immediate problems, creating value in isolated, tightly bounded applications. But as people engage with AI, they will spot new opportunities for creating solutions or improving efficiency and productivity. Restaurants, for example, will most likely become more deeply embedded in their own supply chains and perhaps more flexible in their menu offerings. As these opportunities are realized, they will create new challenges that in turn provide more opportunities. So as AI spreads across supply chains and ecosystems, we will find that all the processes and practices we took for granted are being transformed—not by the technology itself but by the creativity of the people who are using it. ©

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MENTORING

How to Do Sponsorship Right

Mentorship isn't enough. To develop productive career relationships, you've got to be authentic.



Herminia Ibarra
Professor, London Business School



GRACE CHON

IDEA IN BRIEF

THE PROBLEM

Mentoring programs operate under the promise that matching seasoned executives with up-and-coming professionals will produce all sorts of benefits. Unfortunately, relationships often remain superficial and transactional. These problems have only gotten worse with remote and hybrid work, which makes meaningful personal interaction difficult.

THE SOLUTION

To reap the full benefits of developmental relationships and create 'authentic sponsorship,' companies must focus on two vital qualities: public advocacy and relational authenticity.

THE JOURNEY

Developmental relationships can evolve naturally toward authentic sponsorship. This article lays out the various stages of the journey: mentor, strategist, connector, opportunity giver, and sponsor.



Mentoring, sponsorship, and advocacy initiatives come and go, with a well-known principle underlying all of them: If you match successful, seasoned executives with up-and-coming professionals, especially from groups underrepresented in upper management, you'll reap many benefits.



ABOUT THE ART

Photographer Grace Chan captured the relationship between her seven-year-old rescue dog and her 10-month-old son for her series Zoey and Jack.



MENTORING

Juniors, as I call the recipients of career help, grow and receive support in advancing their careers, while seniors revitalize their impact on the business, learn new skills, and gain an understanding of a generation with ambitions, priorities, and challenges different from their own. As a result of this interpersonal magic, organizations not only attract high performers and make the most of their talent but also propel a more diverse group of future leaders up through the ranks.

Unfortunately, mentoring often produces very little magic: Relationships don't click; seniors and juniors misunderstand each other; advancement opportunities remain hard to come by. Problems like these have only gotten worse in our new era of remote and hybrid work, which has made it more difficult for colleagues to have meaningful personal interactions. Juniors have trouble identifying with their organizations and can't imagine staying with them for long. Companies continue to struggle to hold on to their employees—and are left wondering what they can do to turn the tide.

Over the past decade I've spent a lot of time studying and teaching about developmental relationships and have worked with a range of organizations to help them harness the power of mentoring and sponsorship. I have directed private and public leadership programs designed to aid high-potential women in cultivating productive relationships with senior sponsors in their firms. I've conducted interviews and small-group discussions with junior and senior pairs about what worked in their relationships and what didn't. I've also interviewed human resources executives and diversity, equity, and inclusion officers to gain their insights about mentoring and sponsorship programs. One lesson I've learned from all this work is the importance of two defining qualities in developmental relationships: *public advocacy* and *relational authenticity*.

Public advocacy is a one-way process by which seniors speak up for and use their power to help juniors get career opportunities. It produces visible and measurable outcomes, such as promotions and stretch assignments. Relational authenticity is a two-way process in which both parties—juniors and seniors—share their perspectives and make themselves open to hearing and learning from each other. Juniors get the support and validation they need to take on

new challenges, and seniors understand where their juniors' capabilities and talents lie and care enough about them to put their own reputations on the line.

By trying to democratize access to developmental relationships, companies have stripped them of these defining qualities. In this article I'll address the barriers to building successful developmental relationships, and what juniors and seniors can do to overcome them.

HOW DEVELOPMENTAL RELATIONSHIPS LOST THEIR WAY

The 20th-century psychologist Daniel Levinson was one of the first to use the term "mentor" to refer to a person who has deep experience and seniority in a world that a more junior person wants to enter.

Levinson and another pioneering psychologist, Kathy Kram, showed that mentors can serve as role models, advisers, teachers, guides, sponsors, protectors, and more. But the greatest benefit mentors can provide to young professionals, both Levinson and Kram suggested, is helping them forge their identities and realize their dreams. They do so by believing in their protégés, blessing or endorsing their ambitions, and creating a supportive space in which they can work toward their goals. The mentors benefit too: They often find that this work fulfills a deep-seated urge to guide people of younger generations.

The relationships that Levinson and Kram studied were multifaceted, transformational, and deeply rewarding. But in the decades that followed, as the demands on senior executives grew and the ranks of juniors became more and more diverse, developmental relationships became increasingly superficial, transactional, and ineffectual—if they existed at all.

To address that problem, organizations responded pragmatically. They implemented mandatory programs that matched seniors with juniors and prescribed ways for seniors to support their partners. Seniors might be responsible for onboarding new recruits and helping them understand the company culture, for example, or they might be called on to teach juniors particular skills within their functional specialty. These limited roles, however, mostly failed to foster authentic relationships.



MENTORING

Gradually the big idea at the heart of mentoring—authentic relationships—got lost, and public advocacy suffered as a result. The armies of seniors tasked with sharing their knowledge, perspectives, and experience often lacked the institutional power needed to usher juniors into key roles, or they didn't know or care about the juniors enough to expend personal capital on them. The decline in public advocacy was particularly detrimental to juniors from underrepresented groups, who were not promoted at the same rates as their white male counterparts.

HOW SENIORS CAN HELP

Developmental relationships vary in their effectiveness, depending on their levels of public advocacy and relational authenticity. It's useful to consider the various ways that seniors give assistance and support by imagining a 2x2 matrix (see the exhibit "Types of Help in Developmental Relationships").

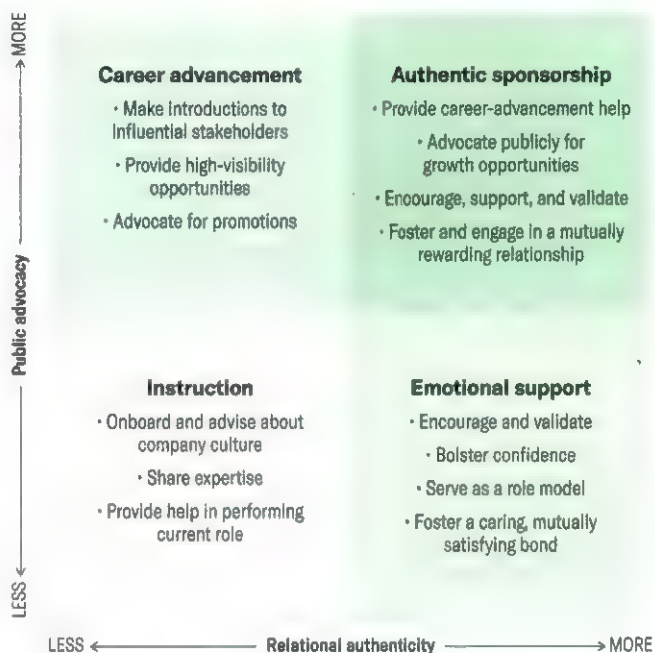
When companies institute mentoring-for-all initiatives, developmental relationships are typically stripped to their least common denominator and mainly involve seniors providing instruction to juniors (lower left quadrant). Seniors might share insider or expert information, onboard and advise the juniors, or work with them to become more effective or satisfied in their current roles. Although this help is valuable, it rarely produces a deep bond between the two parties, and seniors tend to have no personal stake in the juniors' success or advancement.

Some seniors primarily offer emotional support (lower right quadrant). They serve as role models and provide validation, acceptance, encouragement, and friendship to the junior. The two form a mutually satisfying relationship in which each party feels heard, understood, and endorsed by the other, and each experiences a growing sense of competence, confidence, and self-worth. Again, this type of relational authenticity is immensely valuable, but the partnership will fall short in the absence of public advocacy.

In other cases, seniors focus on career advancement (upper left quadrant), connecting their juniors with influential colleagues, providing high-visibility opportunities, or advocating for promotions—all of which is beneficial to the junior. Without the deeper developmental support necessary

Types of Help in Developmental Relationships

Seniors lend assistance and support to juniors in various ways, characterized primarily by their levels of public advocacy and relational authenticity.



to forge a professional identity, however, the junior may be ill prepared to take the leap to a bigger role.

What's optimal for both parties is a relationship characterized by what I call *authentic sponsorship* (upper right quadrant), in which public advocacy and relational authenticity coexist in vital and mutually enhancing ways. A senior provides instruction and career advancement help to the junior, and both individuals benefit from building a relationship that offers opportunities for personal growth.

Consider the relationship between Harold, a senior mergers and acquisitions executive, and Naomi, a corporate lawyer. Early in their relationship, Harold set clear expectations about punctuality and preparation for their meetings, and Naomi took care to meet them. They both invested time and effort in getting to know each other, and in doing so they developed mutual trust. That bond allowed Harold to candidly express ideas that he knew might be difficult for Naomi to hear, and it allowed Naomi to appreciate the value of those ideas and push back as necessary. As their relationship developed, Harold became increasingly confident in Naomi's skills and abilities and began putting his network

When companies institute mentoring-for-all initiatives, developmental relationships are typically stripped to their least common denominator.

to work for her. That support ultimately helped her land a big role as the company's general counsel.

But Harold did more than just help Naomi get the job. He worked with her to clarify her goals and build the confidence she needed to move to the general counsel level. When she confided in him that, as the mother of young children, she was daunted by the prospect of taking on such a stretch position, he helped her see that she was ready. "He said, 'You have what it takes,'" Naomi told me. "'You know the clients, you have the experience, you'll be perfect for the role.' That vote of confidence and that kick is what I needed."

Harold and Naomi were able to develop relational authenticity for three main reasons: They shared their perspectives and feelings in a candid and open way; they boosted each other's feelings of competence, confidence, and self-worth; and they not only learned from each other but also acted on what they learned.

The kind of sponsorship that Naomi benefited from can be hard for women to come by. A 2016 McKinsey/LeanIn study found that women were less likely than men to report that a senior leader outside their direct management chain had helped them get a promotion or challenging new assignment, even though women were more likely to have been assigned a formal mentor. Women of color had even more difficulty getting this support, the study found, with many saying they had had few bosses who promoted their work contributions to others, helped them navigate organizational politics, or connected them to the informal networks that propel high-potentials forward. This scarcity of sponsorship doesn't just affect women: A recent investigation found that only 5% of high-potential Black employees had sponsors, compared with 20% of their white peers. Similarly, only 5% of high-earning Latino professionals in large companies said they had sponsors.

Many companies use formal sponsorship initiatives to address those issues, but, as noted, they've typically generated disappointing results. Effective sponsorship can't be created by fiat; rather, it tends to evolve naturally along a spectrum, with seniors increasing their public advocacy for juniors as the relationship deepens. If both parties enter a relationship with this sponsorship spectrum in mind, they can work to align their goals, and if their relationship stalls, they can more easily understand what has gone wrong.

THE PATH TO AUTHENTIC SPONSORSHIP

Let's now consider how developmental relationships can evolve naturally through five stages toward authentic sponsorship.

Mentor. At the least publicly committed end of the spectrum is what many refer to as a mentor: a senior who privately provides advice and support, with no more at stake than the time invested. This is where most formally assigned relationships begin, and it is unfortunately where most remain. Of course, many assigned relationships don't even get this far: Pairs might have a 10-minute virtual coffee chat and check the box as "done."

Strategizer. As the parties get to know each other, a senior may start to play a strategizer role, sharing insider knowledge about how the junior might advance. At this point, the pair typically begins talking about developmental gaps that might impede the junior's progress. Whether the relationship continues to progress depends increasingly on how well each person gives and receives feedback and the extent to which both parties agree on the junior's readiness for advancement.

In my work, I've found that junior men make it to the strategizer stage more often than junior women do. Men's mentors tend to focus on planning moves and identifying gatekeepers on the path to a predetermined role, whereas women's mentors are more inclined to help women understand themselves, their preferred styles of operating, and ways they might need to change to advance. Finding a senior strategizer is vital for women and members of other underrepresented groups, all of whom are apt to get stuck in support roles. For example, many of the Black executives studied by David A. Thomas, now the president of Morehouse College, had the backing of strategizers who kept them on the path to top management and away from attractive promotions that would have actually prevented long-term advancement.

Connector. The next stage along the spectrum is the connector, who advocates publicly for the junior, makes introductions to key stakeholders, and includes the junior in events or meetings that provide contact with people who might prove instrumental for career advancement. This assistance gets publicly interpreted as an endorsement,

Seniors must distinguish authenticity dilemmas—when you feel faced with a choice between being yourself and doing what it takes to succeed—from confidence problems.

which gives juniors new visibility at a senior level and opens the door for networking upward. Seniors also connect juniors to influential people in their own networks, which allows them to validate their impressions, collect feedback about the juniors, and correct unfair criticisms.

Opportunity giver. At the next stage, the opportunity giver seeks out high-visibility projects or roles for the junior to take on. A senior might ask a junior to give a key presentation, run an important meeting, tackle a project, or serve on a task force or an external board. Arranging for such opportunities is a good way for seniors to test and stretch juniors, expand their visibility, and enable the juniors to grow and gain confidence before they take on bigger roles. It also sends a message that the junior is a high performer, bolstering the young person's credibility throughout the organization.

Sponsor. At the most publicly committed end of the spectrum is the sponsor. When the senior and the junior have developed a meaningful, rewarding relationship, and the senior is committed to the junior's long-term success, they have reached the zone of authentic sponsorship.

STUCK IN THE MIDDLE

Developmental relationships don't always move along the sponsorship spectrum in the same way, and the time it takes to transition from role to role will vary. But no matter how those relationships unfold, if they've been mandated from the top, they tend to get stuck in the middle of the spectrum. Maybe the match isn't right, or the pair received insufficient guidance on expectations. Sometimes juniors aren't ready for more-challenging opportunities, or seniors can't figure out how to provide them. Most often, though, one or both people in the pair have failed to pay explicit attention to the relationship's authentic development.

Consider the relationship between Jim, a senior executive, and Susana, a high-potential Hispanic-heritage employee. (Jim and Susana are a composite of pairs assigned as part of a formal program that aimed to help more women enter the senior ranks.) They began their relationship with a series of conversations in which they discussed topics such as Susana's ambitions and inflection points in Jim's career. Jim was generous with his time,

strategizing with Susana about possible career steps and making email introductions to influential people at his level. But the relationship ran out of steam after a few conversations. Jim wasn't sure how to help Susana further, especially because he felt it was too soon since her last promotion for her to pursue a new role.

Susana was grateful for Jim's support but didn't feel that she and Jim were really connecting. Most of his advice involved engaging in more self-promotion, which made her uncomfortable. She tried to raise the issue, but instead of hearing her, Jim seemed to dismiss her concerns and gave her a pep talk, at which point she shut down. Jim, for his part, interpreted Susana's withdrawal as being resistant to his feedback, so he stopped sharing his thoughts candidly. Soon their relationship stagnated.

There are many reasons that pairs like Jim and Susana struggle to forge a productive bond while others like Naomi and Harold progress smoothly along the spectrum. My research suggests that several common diversity trip wires can foil the best intentions.

DIVERSITY TRIP WIRES

Developmental relationships are rife with the potential for misunderstandings and setbacks as individuals get to know each other. Pervasive biases in organizations and in society can make things even worse, creating additional hurdles for forging authentic relationships between people of differing gender, race, ethnicity, class, and sexual orientation. Pairs should be aware of five trip wires, which can make for hazardous terrain.

"Like me" bias. As humans, we tend to gravitate toward people like ourselves, so it can be difficult to form developmental relationships that cross dimensions of difference. Overcoming the "like me" bias is especially challenging in the workplace, where white men still hold most of the power and have the influence required to advocate successfully for juniors. Most assigned pairs, like Jim and Susana, have to contend from the start with differences in generation and rank, often alongside cultural and other dissimilarities. Juniors and seniors need to understand that they may have to invest a lot of time and energy in getting to know their partners before they'll discover what they have in common.



MENTORING



But the investment is worth it. Seniors who share values and beliefs with juniors tend to provide more emotional support and career-advancement help, and both parties are more likely to characterize their bond as high quality. The trick is to move beyond assumptions based on demographic differences and instead seek out sources of deep similarity, which are often based on common values, beliefs, and experiences.

How can juniors and seniors increase the likelihood of finding common ground? By meeting more frequently; by preparing carefully for their conversations; by asking open-ended questions about the other person's background, interests, goals, and perspectives; and by always being ready to listen.

Authenticity dilemmas. When we code other people as “not like us,” what we hear from them is less likely to resonate for us as true, valuable, or comprehensible. Study after study shows that it’s easy for juniors to feel, as Susana did, that the career advice they get doesn’t make sense for them. Seniors might feel, as Jim did, that they have no useful role to play or that juniors aren’t receptive to feedback.

To interrupt this negative cycle, seniors must learn to distinguish authenticity dilemmas—the predicaments that arise when you feel faced with a choice between being yourself and doing what it takes to succeed—from confidence problems and commitment issues. If seniors can’t make this distinction, they can unwittingly make their juniors, especially individuals from underrepresented groups, feel that to succeed at work they must suppress important aspects of who they are. McGill University professor Patricia Hewlin calls this putting on “facades of conformity.”

Juniors, for their part, have to cultivate a growth mindset and recognize that trying out unfamiliar behaviors and styles is not the same thing as being inauthentic. Moving to the next level in a relationship or an organization often means going beyond one’s comfort zone, which is easier to do in a supportive relationship. Morehouse’s Thomas found that when white seniors share their own experiences and offer emotional support to Black juniors, the juniors feel more emotionally connected than when the seniors simply provide instruction. That connection gives a junior the courage to try out behaviors that might feel uncomfortable but are a prerequisite for learning.



MENTORING

To develop stronger relationships and find points of deep similarity, juniors and seniors need to open up about their lives outside of work.

Feedback gaps. It can be difficult for people to give and receive constructive, actionable feedback, and doing so can be particularly challenging in developmental relationships across differences. When seniors worry that their comments might be perceived as racist or sexist (a frequent concern of white male managers working with employees from underrepresented backgrounds), they often default to protective hesitation, censoring themselves out of fear that they might upset an employee or make themselves look bad. In failing to engage fully and openly, however, they deprive juniors of valuable opportunities to learn and grow—especially women, who are less likely to be given concrete feedback that's both actionable and tied to business outcomes.

Even when seniors are not directly responsible for providing feedback to their juniors, they still play a critical role in interpreting and influencing others' views of a junior's potential. They can do this in several ways: by talking to the juniors about feedback they receive so that they can act on it; meeting with juniors' direct managers, possibly alongside HR representatives to ensure that everybody agrees on developmental needs; talking about their juniors with their peers to boost their visibility and shape how they are considered in succession-planning and talent-management processes; and interrupting any bias and stereotypical assessments they observe.

Juniors need to demonstrate that they care deeply about their own growth and advancement. They can dispel some protective hesitation by clearly conveying to seniors that they really want feedback and by inviting them to speak candidly. Juniors also need to educate themselves about how bias can seep into developmental feedback—and how they can counter its effects. Having this awareness can empower them to play a more active role in the partnership.

The “bring your whole self to work” paradox. To develop stronger relationships and find points of deep similarity, juniors and seniors need to open up about their lives outside of work. Individuals from underrepresented groups—no matter how senior they are—often hesitate to share, though, because they worry that personal disclosure might make their differences more conspicuous and ultimately damage the relationship. Recent research by Wharton professor Rachel Arnett, however, finds that rich and meaningful conversations about their racial and ethnic

What Constitutes a High-Quality Working Relationship?

Recent research, compiled by Jane Dutton and Belle Rose Ragins, has focused on defining the qualities and outcomes of positive developmental relationships, which share four key features:

They are reciprocal and mutual: Both parties give and receive.

They grow with openness and self-disclosure: Both parties share their thoughts, perspectives, and feelings candidly,

while being open to those of the other person.

They produce confidence and validation: Because each party feels heard, understood, and endorsed by the other, each experiences a growing sense of competence, confidence, and self-worth.

They motivate action: Those feelings of confidence and validation inspire both parties to not only learn from their interactions but also act on the lessons.

backgrounds with members of majority groups actually increases inclusive behavior.

Seniors should make the first moves, perhaps by revealing challenges they've faced in their career or talking about their backgrounds. At the outset juniors should avoid oversharing, but as the relationship develops they can intentionally discuss unique experiences and personal interests to create a deeper bond with their seniors.

The confidence conundrum. When I ask juniors what they value in their successful developmental relationships, most mention seniors who helped them build the confidence to go for stretch roles. For years this was the mainstream approach for coaching, training, and mentoring women. Recent research, however, has shown that evaluators mistakenly use displays of confidence as a proxy for competence, particularly when assessing women's readiness for promotion. That's exactly what Jim did early on, mistaking Susana's authenticity dilemma for a confidence deficit.

But the same evaluators who encourage juniors to be more confident are also often put off by declarations of



ambition when juniors violate the norms for what's considered "appropriate" behavior. For women and individuals from underrepresented groups in particular, this can be a diabolically fine line to walk.

This tension also raises an obvious and important question: Should confidence in developmental relationships be earned or granted? How can juniors gain the confidence to pursue new opportunities if seniors won't help them without first seeing signs of confidence? This chicken-and-egg scenario inadvertently sets in motion a cycle of inauthentic interaction that prevents both parties from growing and learning. That has to change.

LET'S FACE IT: We become who we are with help and support from those around us, and we all yearn for authenticity

in our significant relationships. The same needs and desires underlie developmental relationships in the workplace. But all too often relationships between juniors and seniors are transactional, imposed from the top, and ill-suited to foster transformational personal and professional growth.

We can do better. If we want to realize the full benefits of developmental relationships—and ensure that members of underrepresented groups share equally in them—we need to create the organizational conditions that will allow a new model of authentic sponsorship to emerge. ☺

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Can AI Really Help You Sell?

It can, depending on when and how you implement it.



SALES



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NURIA MADRID





SALES

Though more and more companies are applying sophisticated technology to sales processes,

research suggests that most aren't using it effectively (and some don't even use it at all). Even customer-relationship-management systems, which digitally savvy sales organizations have had in place for decades, aren't being fully taken advantage of. In Sales Mastery's 2022 Sales Performance Scorecard survey of 332 sales managers, 15% of respondents reported that their companies were not actively using CRM, and 42% stated that they were using it only for storing information about customers and prospects.

No wonder salespeople have been struggling. According to global surveys of nearly 1,000 sales leaders by CSO Insights, the percentage of salespeople meeting their annual quotas fell from 63% to 57% from 2012 to 2019. When the leaders were asked to evaluate their teams' performance in 16 distinct sales activities, they said their teams were less effective at 15 of those tasks than they had been five years earlier. And according to the sales executives we talk to, lately the performance of salespeople has gotten even worse.

Part of the problem is that buying processes have been evolving faster than selling processes. Buyers are better informed than ever, with access to a wide range of online resources that help them evaluate products before ever meeting with a salesperson. Another factor may be that sales reps spend too much time doing things that don't directly involve selling. The Sales Mastery 2022 survey found that on average salespeople devoted only 32% of their time to selling—and 68% to non-revenue-producing activities.

For more than two decades, two of the authors of this article (Barry and Jim) have studied processes and relationships in sales organizations. A third author (Ben) has been teaching classes on that subject since the 1970s. The fourth author (Boris) has researched the organizational implications of AI and data analytics for many years. Collectively we've published dozens of articles and white papers on those topics. In 2021 we also surveyed more than 500 sales organizations to assess the role that AI plays in improving sales performance. In our research and consulting work, we've observed a virtuous cycle: The more AI tools are applied to a process, the more data is generated. Better data leads to better algorithms. Better algorithms lead to better service and greater success. Those, in turn, lead to more usage, continuing the cycle. So we believe that the sooner an organization implements AI solutions and the more broadly they're applied, the better they work. Success grows exponentially. And the competitive risks of *not* adopting AI tools grow as well.

Unfortunately for sales leaders, implementing AI-based sales processes isn't as simple as downloading new software.

In this article we'll examine the ways in which AI is already used to facilitate selling—and how it can be used to do more. We'll detail how sales leaders who have successfully

IDEA IN BRIEF

THE PROBLEM

Despite the power and sophistication of today's AI sales tools, companies don't use them effectively, and some haven't even gotten started.

THE CAUSE

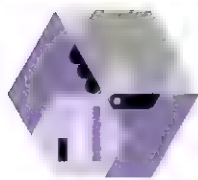
Buying processes have changed quickly, and companies haven't kept up. Buyers are better informed than ever, with access to a wide range of online resources that aid their decision-making.

THE SOLUTION

The Sales Success Matrix allows companies to determine how to improve their use of sales technology and which kinds of AI tools might best serve their needs

-
- The percentage of salespeople meeting their annual quotas fell from 63% to 57% from 2012 to 2019, according to global surveys.
-





SALES

adopted AI optimize its performance. And we'll provide sales leaders with a self-assessment tool that is designed to help them start or improve their AI-for-sales journeys.

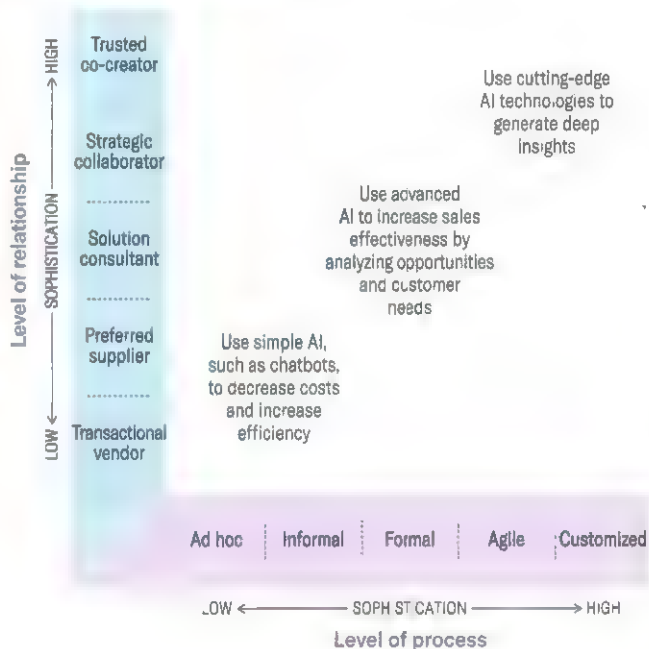
HEIGHTENING CUSTOMER ENGAGEMENT

Let's begin by looking at an instance where the application of AI in sales was a real game changer—one that McAfee Enterprise, a leader in computer security solutions that later became Trellix, shared with us in May 2021. AI in the company's internally developed platform analyzes a billion sensors across its customers' systems and identifies and prioritizes security threats. The platform predicts the impact each threat could have, alerts the customer, and then prescribes corrective actions. In addition to increasing the effectiveness of the security teams, the AI is a valuable tool for the sales organization. According to Pilar Schenk, the company's former vice president of global sales strategy and operations, its sales professionals harness the AI to understand potential risks for noncustomers and for current customers who aren't yet using the platform. Aggregating the sensor data, the AI gives salespeople targeted recommendations about which firms in their territories they should proactively contact and why. The salespeople then follow playbooks on the sales organization's High Velocity Sales (HVS) platform, which describe how they should engage prospects and provide supporting materials they need to do that.

This approach has altered the dynamic between salespeople and buyers. Instead of asking potential customers to share information from their systems, salespeople offer to share the risks that the AI's analysis has surfaced for their companies, as well as advice on how to address them. Since incorporating sensor-generated insights into HVS, in January 2020, the company has been tracking the performance of the salespeople who use them and has found a 10-fold improvement in their ability to start conversations with prospects. The number of initial conversations that they've converted into sales opportunities has also increased three-fold. In addition, they've had a 5% increase in renewal rates. Their managers have benefited too: Before HVS, the managers were spending 9% to 10% of their time coaching their team members. But since the platform now gives them a continuous analysis of their salespeople's activities,

The Sales Success Matrix

No matter where your company falls on the matrix, AI can help your firm strengthen customer ties and improve processes, but the kind of AI that works best changes as you move up levels. Relationships deepen as you go higher on the Y-axis: At the bottom sellers make routine, repetitive transactions; at the top they provide exclusive sales expertise and collaborate intensively with customers. Process levels become more intricate as you move to the right on the X-axis: They start with ad hoc processes that lack standardization and involve very little technology, and end with customized processes that generate personalized sales messaging and anticipate customer needs.



revealing who needs what type of help on what type of opportunity, the managers no longer have to spend hours trying to figure that out—and the percentage of time they devote to coaching has jumped to about 30%.

THE SALES SUCCESS MATRIX

To help companies determine what kinds of AI solutions they're ready to implement, we've developed a tool that we call the Sales Success Matrix. It has two axes: relationship level and process level. Sales organizations can identify their position on it, which will point them to the kinds of AI tools that would best boost their sales now and what steps they might take next. For most, the ultimate goal will be to move up to the highest levels of relationships and processes, where customer loyalty and competitive advantage are the strongest.

Instead of asking potential customers to share information from their systems, salespeople offer to share the risks that the AI's analysis has surfaced for their companies.

RELATIONSHIP LEVEL

The matrix maps out five types of relationships that selling organizations can have with customers: transactional vendor, preferred supplier, solution consultant, strategic collaborator, and trusted co-creator. AI can be useful with all five kinds, but in different ways.

Transactional vendor. This is the lowest level of relationships. The customer's transactions are rapid, repetitive, and routine, and usually involve self-service or online shopping. To remain profitable and competitive at this level, companies need to squeeze out costs, leverage automation, and minimize buyer-seller interactions, and AI algorithms can help them do this. A common example of AI at this level is e-commerce site recommendations: Customers who bought this item also bought these items. Recommendations can be based not only on the activity of similar buyers but also on past purchasing history or imported data, such as web searches, buyer demographics, and paid placements.

Preferred supplier. At this level the organization has managed to differentiate its offerings enough to create a measurable customer preference. That differentiation gives sellers an opportunity to gain customer information, which can then be used to win more business from the customer, generate referrals, cross-sell other products and services, and obtain still more information about emerging needs or competitive activity. For example, many preferred suppliers offer managed services (such as monitoring printer ink levels and automatically sending new supplies), which minimize outages and downtime for their customers while increasing their own revenue and profits. AI can help sellers at this level anticipate customers' needs by analyzing historical usage patterns, comparative user volumes, and maintenance records.

Solution consultant. At the third level sellers offer a complicated set of products and services that are integrated into one system. To be competitive, a seller must get buyers to believe that the integrated solution provides more value than assembling the components on their own would. Typically, the seller makes a profit on both the components and the integration. Software-as-a-service companies fall into this category. Their sales teams usually include someone in a customer success role who is responsible for monitoring usage and encouraging the adoption of other capabilities.

AI applications can assist solution consultants by offering suggestions, based on customer records and on "like population" usage data, about how to increase customer "stickiness" and minimize churn. Trellix's use of AI to improve relationships with customers and prospects is a perfect example of a technology for solution consultants.

Strategic collaborator. At this level the connections between buyer and seller are stronger and more numerous and intricate. Relationships are usually regional or even global. And as both the size of transactions and the duration of the relationship increase, higher levels of management get involved. The sales approach required is totally different from the traditional one salespeople take with purchasing agents. Account management is truly enterprise-wide and cross-functional and involves orchestrating multiple varied conversations and marshaling both internal and external resources. With interactions between buyer and seller taking place on so many dimensions, complexity grows exponentially. "Back of the envelope" or spreadsheet tracking of opportunities is no longer adequate. Companies at this level can harness AI to analyze a customer and compare its financial performance with that of its closest competitors, identify and prioritize gaps, and recommend possible solutions tailored to both the customer's needs and the supplier's capabilities.

Trusted co-creator. At this level sellers go beyond helping customers execute strategies and collaborate on formulating them. Traditionally, this has been the *crème de la crème* of sales approaches. But not every customer wants or will pay for the very best. Furthermore, many companies lack the skills to be this type of supplier. Because these relationships are so complicated, take so many resources, and demand so much top-management involvement, in the past companies could have only a small number of them. They often require what's known as "extraprise" account management, in which multiple levels and functions on both sides of the buy-sell equation communicate directly. CFOs from the two parties, for instance, may talk about supply chain issues and contingency planning. AI sales tools here would involve multiple parties inside and outside the company. Engineers at an engine manufacturer, for instance, might work with the engineers at an aircraft maker to create a "digital twin" of a jet engine that can predict maintenance needs,



drawing into the discussion a maintenance representative from an airline. Interactions at this level are varied, intense, and forward-looking—and exclusive.

Historically two-thirds of sellers have occupied the lowest three relationship levels (transactional vendor, preferred supplier, and solution consultant), while only 9% have reached the top level, trusted co-creator. In general, the objective at the transactional vendor and preferred supplier levels is to use AI to improve efficiency and decrease costs while maintaining or improving customer service. At the next levels, solution consultant and strategic collaborator, the primary objective is more-effective sales efforts, and AI tends to support more-sophisticated sales professionals. At the trusted co-creator level, the goal is deep, intensive collaboration with customers.

In addition to helping companies sell more, thoughtfully applied AI can help move customer relationships to a higher level. But at every level—and amid all the rapid changes in business, technology, and how and where people work—some things remain constant: Customers still will ask, What do you know about me? What do you know about our

business? What value do *you* (singular and plural) add? Those are the questions sellers need to answer to establish and elevate their relationships. AI does not supplant that need or those questions; rather, it enables better, richer answers.

PROCESS LEVEL

Advances in technology and access to new classes of information and data have profoundly changed the way businesses need to think about their sales processes. AI tools can improve performance across the spectrum, which runs from ad hoc process (at the low end) to informal process, formal process, agile process, and customized process.

Ad hoc process. At this level each sales rep is allowed to do his or her own thing. Reps receive relatively little or no sales training beyond product or service information. Their feedback from the field is not sought and often not even welcome. Sales support means that the top marketing or sales executive or the CEO goes out with the salesperson to close larger deals. Efficiency is the watchword with this kind of process, and sales organizations can improve it with

In addition to helping companies sell more, thoughtfully applied AI can help move customer relationships to a higher level.



SALES

simple AI that, say, scans emails and adds prospects' contact information into a CRM system.

Informal process. Here the company suggests a defined sales approach to its reps and encourages them to use it but doesn't monitor whether they do or measure the results. In many cases there is little sales training. More-experienced sales managers and salespeople might even disparage the suggested process and discourage its use: "That's headquarters stuff that doesn't work here!" But CRM systems powered by AI can help salespeople work more quickly, improve their client insights, measure results, and ultimately better understand and refine their processes.

Formal process. At this level a company regularly enforces the use of a defined sales process (sometimes religiously) and conducts periodic reviews to see how effective it is. These companies can see when win/loss rates and lead conversion ratios begin to change, analyze the causes, and react. AI can help firms do all this more accurately and with exponentially greater speed, providing sales teams with immediate opportunities for improvement.

Agile process. Companies at this level not only have a formal sales process in place but also have CRM systems that continually generate metrics on what's happening in the marketplace. That helps them react to external changes quickly. They can increase their agility even more by leveraging analytics and business intelligence and tapping the full capabilities of AI. These companies may sense the winds of change at earlier and less obvious stages (such as increases in the time various buy-cycle steps take) and so can proactively minimize threats and take advantage of opportunities.

Customized process. This is a level where companies build on their agile AI experiences and begin to anticipate change rather than just react nimbly to it. Predictive analytics are a key capability needed to do that but cannot truly be implemented until AI and machine learning are continually scanning sales, marketing, and other data streams and identifying possible threats and opportunities. The increased insights and flexibility AI generates allow sellers to tailor messaging and proposals and implement account-based marketing and account-based selling.

In the two lowest levels of processes—ad hoc and informal—AI again can be used to increase efficiency.

At the third level, formal, it increases the effectiveness of activities such as coaching and reporting. At the top two levels, agile and customized, AI mines data to produce deep insights about customers' realized and unrealized needs.

As a rule, if your organization wants to have more-sophisticated relationships with customers, it should also have higher-level processes. For instance, to be strategic collaborators or trusted co-creators, companies almost always need agile or customized processes. (They also need the right data and analytics.) Again, effective applications of AI can get them to the process level where they want to be.

In the following section, we'll explore three AI-for-sales implementations. The first example, which offers lessons to companies that would like to become strategic collaborators, is about how Accenture built its own proprietary AI sales solution from scratch. The second example, which provides a road map to organizations that want to make their processes more agile, shows how Honeywell worked with Aviso, a provider of AI-powered CRM tools, to completely redesign its sales forecasting and pipeline management processes and systems. The final example, which outlines an approach that could help preferred suppliers become solution consultants, describes SAP's partnership with Grapevine6 (now Seismic LiveSocial) to apply AI to client social media data.

AI-POWERED SALES INTELLIGENCE

Accenture's Value Insights Platform (VIP) is a digital research assistant powered by AI and machine learning. It assesses the business imperatives of the firm's current and potential clients by deeply analyzing transcripts of their earnings calls. Before VIP's development, skilled analysts would spend a minimum of six hours a call reviewing and extracting insights into companies' key priorities. VIP, in contrast, can process about 7,500 earnings call transcripts in 480 minutes, or 3.8 seconds a call.

VIP's benefits go far beyond time savings. After identifying specific client priorities, such as a goal of realizing \$22 billion in savings over five years, the platform matches them with specific solutions. Whether the client wants to optimize revenues, drive operational efficiencies, or reduce its carbon footprint, VIP reviews its performance relative to



Because these tools' efficacy increases over time, first movers will gain a meaningful and sustainable lead.

its peers, identifies solutions, and calculates the financial impact of successfully achieving those goals.

The AI's predictive capabilities allow Accenture's sales teams and technical solution architects to take an unequaled value-based selling approach, and the speed at which VIP provides supporting insights gives Accenture a key advantage in the marketplace. VIP now has roughly 20,000 users worldwide and has helped Accenture generate more than \$1 billion in sales over the past two years.

AI FOR FORECAST MANAGEMENT

In 2018, the technology company Honeywell began looking for a tool that would help its business units improve the accuracy of their sales forecasts, make more-informed decisions, and predict short- and long-term performance. Honeywell, which builds solutions for the aerospace, performance materials, and safety and productivity industries, has multiple global teams and uses a mix of sales tools and spreadsheets. It wanted an automated system that would bring all its sales processes onto a single platform, offer real-time insights, and boost efficiency.

After evaluating several partners and vendors, Honeywell chose Aviso. In addition to building a unified global forecasting process, Aviso customized the solution by giving Honeywell the ability to analyze its deal portfolio and forecasts by geography, team, product line, and business model (new or recurring). Honeywell later added deal intelligence capabilities to the system to gain insights on its sales pipeline, scoring its health and identifying the top deals that could help reps beat their quotas.

Aviso's tools allowed Honeywell's sales teams to provide their individual perspectives and predictions for success and get both a combined forecast and forecasts for the discrete components they were responsible for. Aviso also created a customized dashboard for each salesperson providing a view of his or her own forecast, accounts, communications, and more. Aviso's tools helped sales managers spot trends and deal opportunities and identify obstacles to closing sales and take action to mitigate them.

Later Aviso introduced conversational intelligence, which captures information from calls, web meetings, and email, as a solution on its platform, giving Honeywell's sales

AI-for-Sales Dos and Don'ts

To reap the highest benefits from initiatives that apply artificial intelligence to sales...

DO	DON'T
Optimize your processes first.	Wait. First movers will gain a huge advantage.
Start at the top; the board and senior execs should be setting AI strategy.	Think, <i>One and done!</i> Technology purchases will most likely be piecemeal and made over time.
Ensure that the organization has the necessary resources to implement solutions (for example, skilled employees).	Make unrealistic promises. These are not off-the-shelf solutions, and implementation takes time.
Establish a data-driven culture; implementation must have buy-in from employees across the organization.	Expect AI to be a silver bullet. It simply augments existing frameworks and tools.
Start small and generate short-term gains.	Create functional AI silos.

management deeper insights into the status of all forecast deals. The results have been overwhelmingly positive. Average yearly improvements for Honeywell include \$150 million in total estimated revenue won and more than \$1 million in CRM cost savings at some divisions. Additionally, pipeline activity and online interactions between reps and customers have grown by more than 80% each, and the number of new deals has increased by more than 70%.

AI-POWERED SOCIAL SELLING

Working with its sales and marketing teams, the German software company SAP began using Grapevine6, a social engagement platform. Acquired by Seismic in 2020, Grapevine6 has since been renamed Seismic LiveSocial. Sales professionals connect their social media accounts to it, and it produces two profiles for each. The first covers

the salesperson's professional interests (goals, markets, challenges), and the second covers the salesperson's personal interests (sports teams, hobbies, and the like). LiveSocial's AI engine then uses this information to search through millions of media articles from more than 10,000 sources a day and identify content that might be relevant for the salesperson. Salespeople review the flagged content and, when appropriate, share it with their clients. LiveSocial tracks the posts that the customers interact with, providing insights into their interests. The AI helps SAP position its salespeople as subject matter experts who are on top of the latest changes in the market—a tactic that other companies could use to raise their relationships to the solution consultant level.

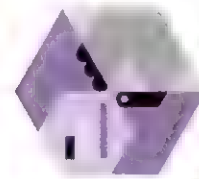
More than 10,000 sales professionals within SAP and its partners are on LiveSocial. Many of them use it in conjunction with LinkedIn Sales Navigator, a tool for finding and engaging leads. Account executives who've harnessed both report significantly higher closing rates and higher average deal sizes. They also see a 20% increase in their LinkedIn Social Selling Index (SSI) scores, a measure of sales effectiveness. SAP account executives with the highest SSI scores, in turn, have seen a 55% increase in their sales performance, close 3.6 times more deals than their peers do, and make deals that are 516% larger than those of their peers. In addition, they're 3.4 times more likely to achieve or exceed their sales quotas. Overall, SAP has attributed €2 billion of its pipeline and €1 billion of its closed deals to this social selling program.

GETTING STARTED WITH AI FOR SALES

To get the most out of AI solutions, organizations must have the necessary hardware, software, and processes in place. They also need high-quality data to feed into AI tools and the right people to leverage them.

What steps should organizations take to successfully implement AI sales solutions? First, they should clearly articulate an AI strategy: What are they trying to achieve? Second, they should examine whether their structures support that strategy: Are teams set up to achieve the AI goals? The AI tools will be part of an integrated framework that includes people, processes, traditional technologies, and knowledge: Are those components aligned? Next, organizations must ensure that they have the right systems—for data collection, performance management, training, and communications.

The right culture is also key to success. People throughout the organization need the skills to understand and apply AI tools—starting at the top. AI initiatives must begin with senior executives, but buy-in by involved employees is critical for full adoption. The culture needs to support



SALES

experimentation and learning. The rollout process should be managed carefully, employing the change management strategies that are necessary for the success of any new initiative. It must involve goal setting, benchmarking, and accountability. (See "AI-for-Sales Dos and Don'ts" for additional tips for success.)

AS MORE FIRMS begin to implement AI-for-sales solutions, those that don't will find themselves losing ground. Because these tools' efficacy increases over time, first movers will gain a meaningful and sustainable lead. Eighty-one percent of our 2022 survey respondents said that organizations without AI sales tools would be at a "significant competitive disadvantage" or missing "an important/key addition to their CRM." However, that percentage increased to 94% among respondents who had already implemented or were currently implementing AI solutions. In other words, people who have firsthand experience with AI-for-sales solutions feel even more strongly about their importance.

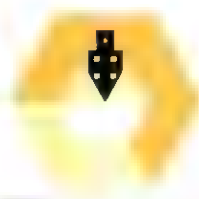
Some companies have successfully applied AI and automation to sales processes for almost a decade. Others have done it for even longer. Those sales organizations that haven't gotten started, or have tried and failed, may get left behind for good.

The AI-for-sales landscape is packed with promise and challenge. The technology is evolving rapidly, reshaping how sellers sell and buyers buy. Trellix, Accenture, Honeywell, and SAP prove that combining AI with well-defined sales processes and strong customer relationships leads to high sales. No matter how deep your bonds with your customers are or how complex your sales processes, AI can help your company maximize its profitability. ☺

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Disclosure: SAP and Accenture have both been clients of Sales Mastery.

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Moving the Needle on Sustainability

You can't just get
the product right—
you may need to
change consumer
behavior too.

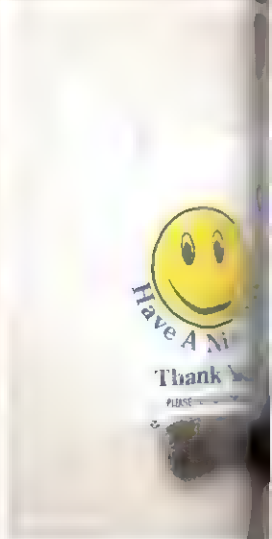
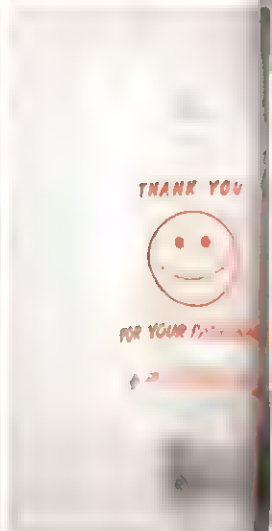
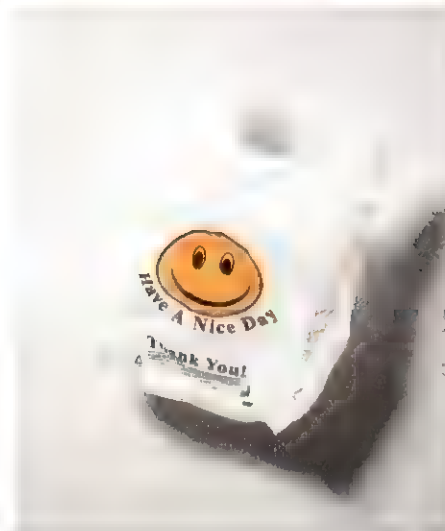
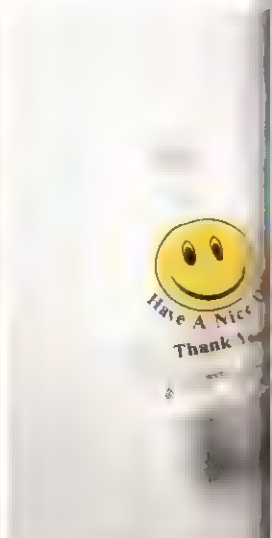
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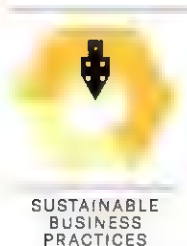
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PHOTOGRAPHER
TONY CENICOLA







SUSTAINABLE
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PRACTICES

Practically every day one company or another announces a new sustainability commitment or launches an ad campaign about how it's helping people and the planet.

Many of those initiatives focus on improving the sustainability of products and operations in legacy or adjacent markets or on achieving sustainability gains by exploring new markets with a more diverse set of products. This is a variation on the classic “where to play/how to win” strategy, familiar to most executives. Fewer leaders, however, are exploring an important new frontier in sustainability, in which brands actively partner with customers to achieve ongoing impact.

In this article, we describe a practical framework for creating sustainability strategies that take into account both dimensions—markets and customer engagement. Developed in discussion with Reckitt, the \$16 billion consumer-packaged-goods giant, the model lays out the four key ways that legacy companies can nurture growth in their sustainability efforts: *fertilizing*, in which a brand stays in its existing market but adds a sustainability “nutrient” to the product or service; *transplanting*, in which a brand serves new customer needs by extending the sustainability benefits of current offerings or related new ones into adjacent markets; *grafting*, in which customers are incorporated into the brand’s current sustainability strategy by changing how they use the product or service; and *hybridizing*, whereby companies adopt a new sustainability purpose to drive a major repositioning of the brand in new markets while asking customers to change too.

Each of these strategies has unique requirements and will have ripple effects across and beyond the business, from R&D and marketing communications to supply chain

operations and partnerships. Embarking on this journey is demanding, but as brand leaders such as Reckitt (whose portfolio of health and hygiene brands includes Lysol, Air Wick, and Finish), along with Schneider Electric, Mahindra Group, and others have discovered, the payoff in sustainability benefits and business performance is worth it.

THE SUSTAINABILITY ROLE OF THE CUSTOMER

Before we examine the four strategies in more detail, let’s take a look at the two primary ways that customers can drive sustainability. For many brands, the role of the customer is simply to purchase the product. Companies meet their sustainability goals by improving the environmental and social performance of their products, operations, and supply chains. They invest resources in using clean manufacturing processes, sourcing components from Fair Trade–certified vendors, and so on, and the sustainability benefits accrue when customers make the decision to buy the product. We call this *sustainability via purchase*.

For other brands, sustainability gains depend on customers’ adoption of key usage behaviors: running a dishwasher on “eco” rather than the regular cycle, for example, or recycling the aluminum capsules from a coffee maker. The brand must persuade customers to change their post-purchase behavior in order to generate benefits—this is what we call *sustainability via participation*. Strategies that require changing consumers’ habits are more challenging, but they can deliver the greatest sustainability gains.

Previous spread: The New York Times/Redux

• The sustainability benefit delivered by the offering should be as important to customers as other differentiators, such as convenience, price, and performance.

THE FOUR STRATEGIES

Not every strategy will be appropriate or feasible for every brand. It's important to understand the requirements and challenges of each in order to pick the strategy that will deliver the greatest sustainability impact and business gains for the brand. Firms can clarify their thinking by imagining the four strategies as quadrants in a 2x2 matrix, with markets along the horizontal axis and customer engagement along the vertical axis. (See the exhibit "Four Brand Strategies for Sustainability.")

Fertilizing. With this strategy, the brand stays in its existing market and adds a sustainability benefit to the product or service. The customer's role is simply to make the purchase. Brands should pick this strategy when the greatest gains can be achieved through either product modification or changes to the supply chain. The brand's key message to customers is "We're taking responsibility for sustainability, and you need only make the purchase." The fertilizing strategy is most commonly used by legacy brands. It is also the easiest to adopt or expand. Reckitt used it to add sustainability benefits to its Air Wick air-freshener brand. Its new planet-conscious Botanica line is made with natural, responsibly sourced ingredients, and its packaging uses recycled materials. (Disclosure: One of us, Challagalla, has worked as a paid adviser to Reckitt.)

Companies should make sure that their fertilizing strategy is not actually corporate opportunism. It takes little effort to bolt a sustainability claim onto a product without providing meaningful environmental or social benefits. This all-too-common practice can backfire and often provokes customers' anger. Brands can avoid a customer backlash by

demonstrating that the sustainability claims they are making are real and consistent with the brand's legacy. In 2018, the Carlsberg brewery launched a new packaging system in which a novel glue holds the beer cans together, replacing the plastic six-pack rings, well-known to be a hazard to wildlife and a major contributor to ocean pollution. The new packaging is expected to reduce plastic waste by more than 1,000 tons a year after it is fully rolled out.

Transplanting. This strategy occurs when a brand extends the sustainability benefits of current offerings or related new ones into adjacent markets. Transplanting is best suited to companies that stand to reap the greatest sustainability gains by focusing on a broader range of customer needs. The key message to customers is "We will provide new sustainability benefits by broadening our scope; your job is to follow us into this new market."

At the start of the pandemic, Reckitt's Lysol brand team saw an opportunity to think beyond the product's traditional positioning as a surface sanitizer in the consumer market. It transformed its brand purpose from a cleaning product to a health and well-being offering. Leading with its new "keeping people illness-free" purpose, it focused on selling Lysol wipes and infection-control advice to businesses, which in turn relied on Lysol's brand strength to reassure customers that they were taking the pandemic seriously.

A brand that uses sustainability to enter a new playing field must deliver a benefit that's valuable enough to compel customers to embrace the new offering rather than merely shrug when they first encounter it. The sustainability benefit should be as important to customers as other differentiators, such as convenience, price, and performance.

IDEA IN BRIEF

THE USUAL APPROACH

Most sustainability initiatives today focus on improving the sustainability of products and operations in legacy or adjacent markets or on achieving sustainability gains by exploring new markets with a more diverse set of products

A NEW FRONTIER

Leaders should also embrace a new path to sustainability, in which brands actively partner with customers to achieve ongoing impact.

THE STRATEGIES

This article describes a practical framework for creating sustainability strategies that take into account both dimensions—markets and customer engagement. The model lays out the four key ways that legacy companies can nurture growth in their sustainability efforts.





ABOUT THE ART

Ahead of the 2020 plastic-bag ban in New York City, photographer Tony Cenicola documented the many bags designed by Japanese designer Shō Shibuya, who has acquired more than 100 patents since he moved to New York from Tokyo, in 2011.



SUSTAINABLE
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Schneider Electric, a global energy-technology company, got these points right when it shifted focus from its traditional electricity-distribution offerings (such as relays and circuit breakers) to the new market of energy-efficiency services. In the early 2000s Schneider recognized that reducing carbon emissions was becoming as important to companies as cutting costs. It saw an opportunity to embrace a new sustainability purpose and provide a fundamentally new type of value for its B2B customers. They needed only to purchase Schneider's integrated hardware and software solutions (such as smart thermostats that automatically lower the temperature when a building is unoccupied) to reap both benefits. With this new strategy, Schneider's sales more than doubled over 15 years, and its stock price quadrupled. Walmart, for example, hired Schneider to manage its Gigaton project (aimed at avoiding one billion tons of emissions by 2030), and STMicroelectronics brought in Schneider to help it reach carbon neutrality by 2027.

Firms that change their playing field by entering new product categories must watch out for rivals that may leapfrog them with superior sustainability benefits. Traditional oil companies, for example, have invested substantially in ethanol-based biofuels that can be blended with gasoline, reducing emissions by up to 50%. But Neste, a Finnish oil-refining company, has catapulted past these competitors by developing renewable fuels that require no mixing with gasoline, reducing emissions by up to 90%.

Grafting. Brands using this strategy put a spotlight on a sustainability issue within their current product category or market and find ways to encourage customers to change their behavior to help address it. This strategy is best suited to brands that have a competitive advantage in their current playing field and for which additional sustainability gains rest in the hands of customers. The brand's message to them is "We're in this together, and we need your help to make meaningful progress."

Nike has successfully pursued a grafting strategy with its long-standing commitment to gender equality as a key part of its sustainability agenda. By the age of 14, girls drop out of sports at twice the rate boys do. Nike's Made to Play initiative works with community partners to increase girls' access to sports opportunities and to recruit and train female coaches. But as one *Forbes* contributor observed, "Empowering

women athletes takes more than just inspired marketing.... It takes merchandise." Nike has invested heavily in developing innovative sports gear for girls and women, and this has become an important revenue stream, growing from less than 10% of its revenues in the 1990s to about 25% today.

The success of a grafting strategy lies in changing consumer behaviors that are often cultural norms or long-standing habits, a prospect customers tend to resist if they feel pressured. One of the most effective ways to get consumers to participate in a firm's sustainability agenda is to frame requests to change behavior in terms of what consumers stand to lose if they don't change. This method is based on the psychological phenomenon known as loss aversion: Studies show that people would rather avoid a loss than make an equivalent gain.

Reckitt understood this when it leveraged its Finish dishwashing detergent brand purpose—"save water for tomorrow"—to change the conversation with consumers in Turkey, a country facing dire water shortages as soon as 2030 if consumption patterns don't change. The brand discovered that in half of Turkish households, dishes were rinsed before being placed in the dishwasher, a colossal waste of water. It developed a "skip the rinse" campaign to show consumers that if they put dishes directly in the dishwasher and used Finish Quantum detergent, formulated specially for this purpose, they could save up to 57 liters of water per load. In parallel, it partnered with media companies, dishwasher firms, and Turkey's water resources department to educate consumers, asking them to contemplate the conditions facing the next generation, which might have to manage on less than half as much water. These campaigns increased brand awareness and reversed market-share losses for the product—and reduced water usage in dishwashers by 20%.

Another key way to get consumers to participate in a brand's sustainability agenda is to make doing so their easiest choice. In Switzerland, for example, Nespresso provides free packaging and home pickup by the postal service for its used coffee capsules. In France, the retail chain Leclerc provides customers with "reusable, recyclable, and exchangeable for life" hessian bags to make the switch from plastic bags simple. (For more on how to shift consumers' habits in pursuit of sustainability goals, see "The Elusive Green Consumer," HBR, July–August 2019.)



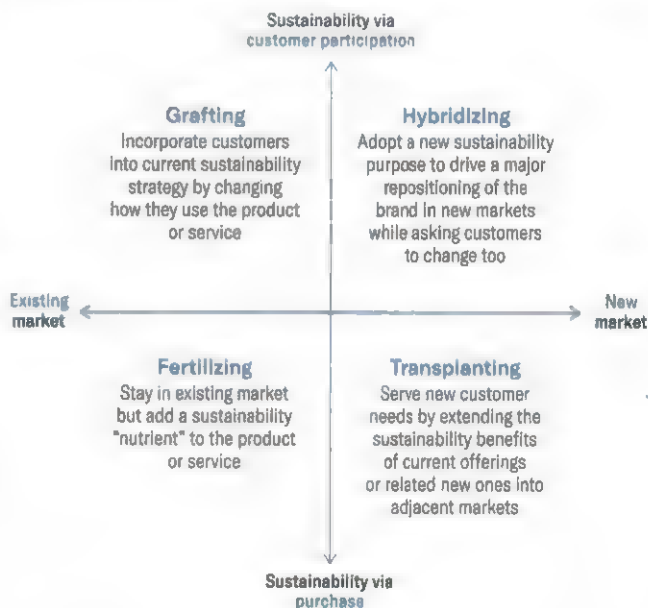
Companies considering a grafting approach must pay special attention to issues of perceived fairness, a requirement for any strategy that depends on consumer participation. If customers feel that the brand is asking them to shoulder the burden of its sustainability agenda while it sits idly by, they'll resist. To underscore its partnership with Turkish consumers, Finish launched an array of water-protection projects, including engaging with an NGO and a local government to revive Kuyucuk Lake, an important wetlands conservation site, and working with the Industrial Development Bank of Turkey to create a water index that tracks the country's water resources.

Hybridizing. This strategy involves brand reinvention with two simultaneous shifts—expanding into a new market with a new sustainability purpose and a major repositioning of the brand while asking customers to change their behavior—each dependent on the other. The message is “Let’s together change rules, roles, and habits to make this industry more sustainable.” This is the boldest shift, and it often requires a new way of competing. A hybridizing strategy is a good option for firms with slowing or stalled growth or an overly narrow approach to solving customer, environmental, and societal problems.

For Vanish, the laundry additive and stain remover, Reckitt initially adopted a fertilizing strategy that focused on reducing the carbon impact of its supply chain. But given the high environmental and social costs of the clothing industry, the brand realized that its sustainability efforts didn’t go far enough. It made a decisive move into a new playing field—“circular fashion,” an ecosystem in which clothes are sold with the intention that they will be reused and disposed of responsibly—and invited customers to participate. According to Reckitt’s chief marketing, sustainability, and corporate affairs officer, Fabrice Beaulieu, the key was to help reduce waste by enabling clothes to “live longer.” Vanish leveraged its original brand promise—clothes that are cleaned more gently hold up better over time—to launch a partnership with the sustainable UK laundry service Oxwash to extend the life span of clothes. More recently, the brand partnered with the British Fashion Council to nudge consumers to embrace circular fashion, relying on the promise that used clothes look more vibrant and last longer when washed with Vanish. This represents a major shift in Vanish’s sustainability strategy and demands significant changes in consumer behavior. It will

Four Brand Strategies for Sustainability

Legacy companies can nurture growth in their sustainability efforts by focusing on two key dimensions: markets and customer engagement.



take years to gauge the program’s impact, but early results are encouraging.

The \$19 billion conglomerate Mahindra Group likewise adopted a hybridizing strategy to extend its reach and sustainability impact. A leader in agricultural equipment, Mahindra’s Agri unit decided to transform its strategy, putting sustainability at the core with a promise of creating “a nation of champion farmers.” In October 2020 it introduced Krish-e, a “farming as a service” offering, with the goal of radically increasing the yield and income of struggling farmers. Krish-e rents tillers, sprayers, and harvesters and offers advisory, digital, and precision-farming services, including facilitation of on-site operations. Along with the new product offering, Mahindra worked to persuade farmers to abandon approaches they had used for decades and learn completely new ways of growing crops.

DEVELOPING A STRATEGY

All four brand strategies in our matrix use a sustainability purpose to capture value for companies, either by gaining greater share of wallet in an existing market (fertilizing and grafting) or by entering adjacent markets or creating new ones (transplanting and hybridizing). Executives can identify which strategy is optimal for each of their brands using an

• A hybridizing strategy is a good option for firms with slowing or stalled growth or an overly narrow approach to solving customer, environmental, and societal problems.

iterative four-step process, starting with a close exploration of a brand's existing sustainability purpose and strategy.

Examine your current approach. Start by identifying your brand's current sustainability strategy. Ask yourself:

- Is the brand's competitive position strong in its current playing field?

- Does the current sustainability strategy resonate with customers?

- Could sustainability contribute more to the brand's business performance?

- Could sustainability serve as a platform for further innovation and growth?

Your answers will help you identify opportunities to either reinvigorate your current strategy or move to another quadrant.

Consider the farming industry. A careful examination of those questions reveals that the agricultural business is ripe for innovation. Farmers around the world are struggling to make a living, and trusted brands are in a strong position to help them improve sustainability performance throughout the crop-growing life cycle.

Map the customer journey. Next, map how customers use your product to accomplish a goal; or, as Clayton Christensen put it, ask yourself, "What is the job customers are hiring your product to do?" Be mindful that your offering is most likely just one among many applying for the job. As you map the customer journey, look beyond your brand and consider that different customers may pursue different brands or even product categories to accomplish the same task.

Mahindra's Agri unit originally focused on selling agricultural equipment to farmers. But to build a nation of champion farmers, it needed to examine exactly how farmers pursued their goal of earning a living and producing healthy crops. It set out to deeply understand farmers' end-to-end process, from choosing what crops to cultivate and which seeds to use to planting, growing, and harvesting. Mahindra also conducted a comprehensive review of other firms in its competitive set that provide products or services at each step of the farming process.

Gauge stakeholders' impact. With a clear picture of the customer journey, assess customers', competitors', and your own sustainability impact at each step. A good approach is to construct a matrix using the United Nations' 17 Sustainable

Development Goals as column headers and each of the customer journey activities as defining rows; then indicate the impact of each activity on each of the development goals. Farming has potential negative impacts related to several SDGs, including water management (goal 6), eroding soil (12), and overusing fertilizer and pesticides (12).

Next, identify the stakeholders involved in each activity. For example, farmers use pesticides at a certain stage of the growing process. They may overuse the chemicals, but that may be because the products are of poor quality. If so, both farmers and the supplier contribute to negative sustainability outcomes for that activity. For Mahindra, this suggested an opening for a profitable initiative combining education, equipment, and the better or more thoughtful use of pesticides to improve both sustainability and farmers' yields.

Choose your strategy. The choice of where to play—whether to stay in your existing or an adjacent market or create or move into a new one—will be informed by your analysis of customers' needs and sustainability gains throughout their journey. The choice between sustainability via purchase or via participation will be informed largely by your analysis of whether customers or other stakeholders are or can be key drivers of sustainability gains.

If we consider Mahindra Agri through this lens, we see that adopting a hybridizing strategy checks all the boxes. With Krish-e, Mahindra seized an opportunity to move into new markets with new products while also helping farmers transform their practices. The impact has been dramatic: Krish-e has increased farmers' yields by up to 15%, cut their costs by 8% to 12%, and increased their profits by as much as \$79 per acre.

OPTIMIZING BRAND SUSTAINABILITY strategies is a complex and demanding journey. But by rationalizing each brand's position and trajectory within the framework, companies will see their sustainable brand initiatives generate increasing environmental, social, and reputational benefits as they enhance competitiveness and business performance. ☺

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MANAGING YOURSELF

Make the Most of Your One-on-One Meetings

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by Steven G. Rogovsky



Advice and
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URNOVER WAS

high on Bill's team—higher, in fact, than on most other teams at his company. Although Bill thought of himself as a good manager, exit interviews with his departing team members suggested that they hadn't felt meaningfully engaged or fully supported in their roles and had tended to step on one another's toes with their assignments.

What, exactly, was Bill doing wrong? One area stood out when I spoke with him and his team: He held fewer regular one-on-one (1:1) meetings with his direct reports than his peers at the company did. When he did meet with team members individually, the subject tended to be a critical issue he needed help with rather than their work or their development.

Bill, a composite of managers I've worked with and studied, clearly had



Both direct reports and managers rated meetings most highly when the reports contributed to or established the agenda themselves.

a blind spot when it came to 1:1s. Such blind spots are not uncommon. Of 250 direct reports I surveyed recently, nearly half rated their 1:1 experiences as sub-optimal. That's hardly surprising, given that few organizations provide strong guidance or training for managers about when and how to meet individually with their employees. But my research shows that managers who don't invest in such conversations—who view them as a burden, hold them too infrequently, or manage them poorly—risk leaving their team members disconnected, both functionally and emotionally.

The best managers recognize that 1:1s are not an add-on to their role—they are foundational to it. Those who fully embrace these meetings as the place where leadership happens can make their teams' day-to-day output better and more efficient, build trust and psychological safety, and improve employees' experiences, motivation, and engagement. The managers thrive in turn, because their success is tied to the performance of those reporting to them.

I've been studying teams, leadership, engagement, and meetings at work for decades, and in the past three years I've set out specifically to learn what makes 1:1s work best by doing three studies: a global survey of 1,000 knowledge workers, a U.S. survey of 250 people who either lead or participate in 1:1s, and interviews with nearly 50 top leaders at various *Fortune* 100 companies. I've discovered that although no one-size-fits-all approach exists, there are some useful guidelines for managers. Most important is that the manager should consider the meeting a focused space for the direct report and make that

explicit. The meeting should be dominated by topics relating to the needs, concerns, and hopes of the employee, who should take an active role in presenting them. As the manager, your responsibilities are to ensure that the meetings occur, actively facilitate them, encourage genuine conversation, ask good questions, offer support, and help each team member get what's needed for optimal short-term performance and long-term growth.

In this article I'll lay out how to prepare for and facilitate effective 1:1s.

BEFORE THE MEETINGS

Setting up your 1:1s should entail more than dropping invites onto your team members' calendars. You should lay the groundwork for your conversations and plan the logistics to best fit each report's unique needs.

Communicate the initiative or your reboot of the initiative. Whether or not the practice of holding 1:1s is new to your team, announce it at a team meeting so that everyone gets the message at the same time and no one feels singled out. Tie the meetings to your organization's values (such as the importance of hearing employees' voices) and to your personal values (such as striving to be a supportive leader). Also stress that these conversations are not meant to signal dissatisfaction with your team's work and are not about micromanaging; rather, they are opportunities for you and each member to get to know each other better, learn about challenges, and discuss careers, and for you to give help when it's needed. This is also a good moment to tell your team members

what you need from them to make the meetings successful: They should drive the agenda with key priorities, be curious, be actively engaged, communicate candidly, think deeply about problems and solutions, and be willing to ask for help and act on feedback.

Determine cadence. My research suggests that you should adopt one of three plans for the frequency of 1:1s: (1) You meet with each of your team members *once a week* for 30 minutes or so. In my surveys, employees, regardless of job level, rated this approach the most desirable; it also correlated with the highest levels of engagement. (2) In the second-highest-rated plan you meet *every other week* for 45 to 60 minutes. (3) In a *hybrid* plan you meet with some team members weekly and others every two weeks. Whichever plan you choose, aim to spend roughly equivalent amounts of time with employees over the course of a month so that all team members get the same in-person support from you. To determine the right cadence, consider:

→ **Team member experience.**

Weekly meetings are ideal for more-junior employees and those who are new to the team. They allow you to provide coaching and other support for the employees' growth and development and to build a relationship.

→ **Manager tenure.** Similarly, if you are new to the team, weekly meetings are ideal for establishing relationships and alignment.

→ **Team size.** If your team is large (10 or more), consider holding 1:1s every other week so that you can stagger them across a longer time span. You may need to reduce the time allotted to each



meeting. To ease the load associated with a large team, some managers introduce peer mentoring, in which team members give guidance and feedback to one another rather than rely solely on the manager.

• **Remote or in person.** If your team is remote, weekly meetings can help counter a lack of spontaneous face-to-face contact.

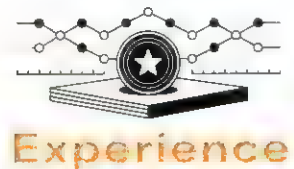
• **Team member preference.**

Finally, give your employees a voice in the decision.

I've seen some managers, mostly senior leaders, opt for three or four weeks between 1:1s, but investing only 60 minutes or so with each team member every month makes building a trusting relationship difficult. And because more-recent events are easier to recall, the longer time lapse also means that you're less likely to discuss any issues that arose several weeks

prior to the meeting. These meetings are most effective when you can build momentum around specific areas of the direct report's activities and growth. A monthly cadence makes that more challenging. But if your team members are seasoned and have worked with you a long time, and you are readily available for impromptu conversations, this cadence can work and is preferable to nothing. However, employees rated this option as least desirable, and it was associated with smaller gains in engagement.

Finally, avoid canceling 1:1s, which can hamper your team members' progress and make them feel that they are low on your priority list. This was one of Bill's problems: He readily canceled these meetings if he got busy. That sometimes demoralized his team members; they also found themselves duplicating efforts or



working at cross-purposes because they hadn't had a chance to coordinate their work through Bill. If you must cancel, reschedule the meeting right away, ideally for the same week—even if that means moving the meeting up rather than moving it out. Another option is to reduce the length of the meeting: Some time together is better than none at all.

Set a location. In my research, employees rated virtual 1:1s as slightly less desirable than those held in person, but they rated the ultimate value of the meetings similarly regardless of which form they'd taken. If you can meet in person, choose a location where you and your employee will feel at ease, present, and free of distractions. In my surveys the most highly rated location was the manager's office or a conference room; the lowest was the direct report's office. Support for outside locations, such as coffee shops, or taking a walk near the office, was uneven, so don't assume that everyone would welcome them. Talk to your team members in advance to gauge where they feel most comfortable.

Create an agenda. Many managers assume that 1:1s are too informal to require an agenda, but my research shows that having one is a strong predictor of the effectiveness of the meeting, whether it was created in advance (which is ideal) or at the meeting itself (if necessary).

Even more critical, though, is the employee's involvement in the agenda's creation: Both direct reports and managers rated meetings most highly when the reports contributed to or established the agenda themselves. Bill's habit of organizing his 1:1s around his



Experience

own priorities and needs meant that his team members' concerns were usually relegated to the end of the meeting—and often went unaddressed if time ran out.

Collaborating on an agenda can be as simple as having each party create a list of topics to discuss. In the meeting the two should work through first the employee's list and then the manager's, as time allows. (Both should review their notes from previous 1:1s while preparing their lists in case some topic requires follow-up.)

Alternatively, some managers create the agenda from broad questions, such as: What would you like to talk about today? How are things going with you and your team? What are your current priorities, and are there any problems or concerns you would like to talk through? Is there anything I can help you with or anywhere I can better support you? What do I need to know about or understand from your perspective?

A warning: Both these approaches tend to prioritize immediate tactical issues and fires to be put out. However you plan your agendas, periodically weave in longer-horizon topics such as career planning and developmental opportunities—by either taking five or 10 minutes at every meeting to discuss those areas or dedicating one out of every three or four meetings to addressing them. (See the exhibit “Sample Questions for 1:1s” to get a sense of issues that should be discussed over time.)

AT THE MEETINGS

Once you've prepared for a meeting, a fruitful discussion will depend on your ability to create a setting in which

your employee feels comfortable. A valuable 1:1 addresses both the practical needs and the personal needs—to feel respected, heard, valued, trusted, and included—of the employee. To ensure that a meeting does so:

Set the tone. First, be present. Turn off email alerts, put your phone away, and silence text notifications. Remind yourself as the meeting begins that it is fundamentally about your employee's needs, performance, and engagement.

As you go into the meeting, check your emotional state. Research shows that the mood you bring to a meeting has a contagion effect, so start out with energy and optimism. Reiterate your goals and hopes for the meeting and then move to some non-work-related topics, rapport building, wins, or appreciation to generate momentum and foster feelings of psychological safety. One problem for Bill was that he viewed 1:1s as merely another task on his already long list—something to just get done. That affected how he facilitated (or failed to facilitate), how he listened, how he collaborated, and how he engaged.

Listen more than you talk. The biggest predictor of a 1:1's success, according to my research, is the employee's active participation as measured by the amount of time that person talks during the meeting. The ideal is anywhere from 50% to 90%. The agenda will have some influence on that, but you as the manager should carefully avoid talking more than your employee does.

In addition, listen actively to fully understand your direct report before you speak yourself. Display genuine interest without judgment and

Sample Questions for 1:1s

Work style preferences

- Tell me about the best manager you've ever had. What did that person do that you thought was most effective and helpful?

Well-being and engagement

- What is your favorite part of the job?
 - Least favorite?

Roadblocks, obstacles, or concerns

- Is anything slowing you down or blocking you right now?
- How can I help or support you?

Culture and team dynamics

- What aspects of our team culture do you think we should maintain, change, or work on?

Asking for input

- What feedback from me could be helpful—any particular projects, tasks, skills?
- Would you like more or less coaching or direction from me?

Career development and growth

- What would you like to be doing in five years?
 - What work are you doing here that is most in line with your long-term goals?

Personal connections

- What are your favorite podcasts, books, or hobbies?



To set the tone for a meeting, turn off email alerts and silence text notifications. Stay vigilant about your body language and reactions to create a welcoming and safe space.

acknowledge the employee's viewpoint even if you disagree with it. Ask questions that clarify and constructively challenge that viewpoint. Encourage your team member to provide thoughts on the matters at hand and potential solutions to problems. Stay vigilant about your body language and reactions to ensure that you're creating a welcoming and safe space.

Add your perspective. Once you've listened closely, there will be moments in the meeting when you need to contribute your point of view. A 1:1 provides an excellent opportunity for you to give honest and specific feedback on your direct report's perspectives or actions. It is also a good place for you to engage in collaborative problem solving by truly understanding whatever issue is at hand, pooling information, identifying root causes, and creating a solution that both parties feel good about. If the team member's solution is viable—even if it's not better than your own—it's important that you go with it. That sends a strong message and creates more commitment to the team member's proposed path forward.

Be flexible. As you work through your established agenda, allow the conversation to move organically as needed to provide value. Focus on the items that are most critical. If some items go unaddressed, move them to the following 1:1. Let your employee know at the outset that real-time changes can be made to the agenda if a critical item emerges.

Also, to best connect with each direct report, consider that person's preferences regarding communication, collaboration, and so forth, and adjust

your leadership approach accordingly. That will increase engagement and inclusion, deepen the relationship, and create trust.

End well. Clarify takeaways and action items for both parties, including how you will support next steps. When both the manager and the employee document these, chances are better that the actions will be carried out. It also builds continuity between meetings and allows for needed follow-up. After Bill implemented this change, he was reminded that his 1:1s were not mere transactions to get through but, rather, represented employees' evolving stories—something to be nurtured and developed over time. Finally, show gratitude and appreciation for your direct report's time—and start and stop on schedule to demonstrate those feelings.

IMPROVE OVER TIME

Ideally, both parties should leave the conversation feeling valued, respected, and well-informed, with clarity about next steps on projects, solutions to problems, and the commitments that each of them has made. However, the most important metric for success is whether your employee found the meeting both valuable tactically and fulfilling personally.

To learn where you stand and to improve these meetings over time, start by asking each team member for feedback and ideas to make future 1:1s better. Or you can anonymously survey your team with three basic questions: What's going well with the 1:1s? What's not going well? Do you have ideas for improving them? Know that what works

at one time for your 1:1s may not work at another time, and what is comfortable for one direct report may not be so for another. So even if you think your current pattern is successful, keep trying new things.

What Bill learned from his first survey about 1:1s was sobering. Even more than in the exit interviews, team members raised concerns about whether he really cared about their performance or growth, citing his frequent cancellation of meetings and saying that they often couldn't get a word in edgewise. But once Bill had taken their feedback to heart, the atmosphere on his team began to shift. As he committed to meeting regularly with his employees on topics of importance to them, he found that they seemed more committed to—and proficient at—their work.

REGULAR INDIVIDUAL MEETINGS with each of your team members may feel like a burden. But meeting for 30 minutes each week with one person adds up to no more than 25 hours over the course of a year. That's not too high a price to pay to bolster your team's and your company's performance; support retention and prevent you from spending just as much time (or more) recruiting and onboarding replacements; and help each of your team members grow and achieve. © **HBR Reprint R2206L**



STEVEN G. ROGELBERG is the Chancellor's Professor of organizational science, management, and psychology at the University of North Carolina Charlotte and the author of *The Surprising Science of Meetings: How You Can Lead Your Team to Peak Performance*.



The new security system at the Cub House sets off an alarm when Maria arrives to pick up her daughter.



Case Study Does Facial Recognition Tech Enhance Security?

by Mary C. Gentile, David Danks,
and Maralee Haner

HBR's fictionalized case studies present problems faced by leaders in real businesses and offer a forum for experts to discuss. This one is based on the University of Virginia Case Study, "Facial Surveillance" produced by JVA OB-4000, by David Danks and Maralee Haner, which is available from JVA Darden Business Publishing.

THE SECURITY GUARD couldn't hear Beth Williams over the screeching alarm. LED strobe lights danced up and down the powder-blue and pastel-pink walls of the Cub House day-care center. The guard moved to block Maria Sanchez from walking toward a classroom to pick up her daughter. He extended his arm toward her chest. Maria looked frightened, and Beth, Cub House's founder and director, was horrified. She rushed to the guard and hissed, "She's fine!" directly into his ear. She then took out her phone and typed a few numbers, and the alarm and lights stopped.

A piano resumed playing "Somewhere Over the Rainbow" in a classroom down the hall.

"I'm really sorry about that," Beth said, putting a hand on Maria's shoulder.¹ "We're testing our facial recognition security system. The stupid thing keeps going off for no reason."

A FAULTY SYSTEM

Late that afternoon, after all the children and their caregivers had left the building, Beth asked Charles Rivers, her chief technology officer, and Anthony Michaels, her head of security, to



join her in the teachers' lounge. Both men had been with the not-for-profit Cub House since 2010, when Beth had founded it in Dayton, Ohio, her hometown. The largest facility of its kind in the state, it had numerous recreational and educational spaces for children up to age five, and caregivers could use it flexibly. Some kids attended daily; others came once a month. But all the kids and the adults who dropped them off and picked them up were expected to be registered, and the adults had to supply photo IDs and license plate numbers with their names.

Three months earlier, while the receptionist and the security guard were away from the welcome desk, an elderly, mentally ill woman had wandered into the facility, frightening several toddlers and causing an uproar with parents. Charles and Anthony had suggested that Beth implement a facial recognition-based security system. It would use cameras to photograph every visitor's face and software to analyze the face's geometry, after which each photo would receive a unique code tagged with a name and access permissions. If someone unrecognized by the system or with an obscured face entered the building, or a registered visitor went somewhere unauthorized, such as a child's bathroom or an administrative office, an alarm would sound.

Anthony had said that thanks to the Cub House's nonprofit status, the vendor was willing to waive the up-front costs to get the system running properly, and the project would take only a few weeks. Charles had agreed: "The whole thing will be financially manageable and technologically sound, and it will help everyone sleep better at night."

Beth had been skeptical. Were they really going to delegate the important job of ensuring child and visitor safety to an automated system? Facial recognition seemed creepy to her, not the sort of thing to have in a children's space. Still, her colleagues were insistent, so she'd agreed to test the system, and in informal trials with her staff over a three-day development break, when the center was closed to visitors, the technology had worked perfectly. When she sent a teacher's assistant who didn't yet have full

access into a restricted area, the alarm sounded. When she rushed past reception with her face in her hands, the alarm sounded. The security app on her phone captured an image of the trespasser, and Beth could enter a passcode to stop the alarm. She ran dozens of informal tests like those, and the system responded flawlessly. Beth's concerns fell away.

But the morning the system went live, it was an immediate disaster. The alarm sounded on five occasions, none of which was a security breach. Each time, it frightened the staff, the children, and the caregivers in the facility. The fifth incident had been the one involving Maria Sanchez.

"I'm concerned," Beth said to Charles and Anthony that afternoon. "We've already gotten complaints. It just seems like a huge community-relations and visitor-satisfaction risk."

"These are typical first-day kinks," Charles countered. "We know the system works. The vendor assures me that several hospitals and schools have already tested it.² We can just explain to the parents that this is all being done to protect their kids. And if people see that we're prioritizing safety, they'll be more likely to come here. If we can prevent even one incident during which someone might be harmed, this project will have been worth it."

"But I think we've got a problem," Anthony interjected. "Did you happen to notice any



Case Study Classroom Notes

1. Did Beth and the security guard handle this situation properly? What could they have done differently?
2. Martin Luther King Jr. Community Hospital in Los Angeles tested facial recognition security software for five months. The system operated with 100% reliability and zero downtime.

Beth talks to her friend Tanya, a prominent lawyer, about the security system issues.

Maria posted on Facebook that three Latinx women triggered the center's alarm.

It was five. All women of color. But the system is being improved as we speak.

If you keep it, you're opening the center up to a lawsuit.

But if we don't use technology that could protect our kids, isn't that a potential liability too?

Charles works to improve the accuracy of the security system.



3. MIT and Microsoft ran a test to determine how effectively facial recognition software could identify the sex of people from their faces. The software was correct more than 99% of the time for light-skinned men, but only 66% of the time for darker-skinned women.

4. As of May 25, the school had received 25 school shootings, 15 injuries, and 10 deaths in the United States in 2022.

similarities among the people who triggered the alarm?"

Beth and Charles looked at each other and shrugged.

"All five were dark-skinned women,"³ Anthony said. "Facial recognition systems, like any other automated technology, depend on the data used to build them: If the faces used were primarily white and male—which describes most of the guys who program these things—the system will make more errors when evaluating Black, brown, or feminine faces. We can address this problem partly in technical ways—right, Charles?" Charles nodded. "But can you guarantee that we'll be able to fully solve it?"

Beth was again horrified. If false alarms disproportionately affected women and people of color—which described the vast majority of those who came to the center each day—not only would it be a huge and frequent

disruption and a potential reputational and legal-liability risk, but it would go against everything she tried to teach the children about fairness and empathy. That said, given the number of school shootings⁴ in the United States, high crime rates in Dayton, and the scare with the mentally ill woman, keeping Cub House safe was without a doubt her and her clients' number one priority.

"Let's shut the system down for now," Beth said. "I'll give you and the vendor a few weeks to work on fixing the false alarms."

THE LEGAL IMPLICATIONS

Beth met Tanya Marshall for lunch the next day at a bistro in downtown Dayton. The two women had been friends since they were undergraduates at Ohio State. Tanya was now the first Black partner at the city's largest law firm. She'd encouraged Beth

to build the Cub House back when it was just a set of PowerPoint slides. Her two children had attended regularly as toddlers, and she was one of the Cub House's most active board members and consistent donors.

"I wanted to check in with you," Tanya said after they'd ordered. "Maria Sanchez posted on the Cub House parents' Facebook page that she and two other Latinx women were stopped by alarms when they entered the center."

"It was five," Beth said.

"Five?"

"Yes, the alarm rang for five different women of color." Beth told Tanya about the mentally ill woman, the facial recognition software, and the software's flaws. "The system is being improved as we speak," she said.

"You'd better not bring it back," Tanya said. "At least not yet. You might be opening the center

After a test of the system in a real-time setting—the summer recital—Charles updates Beth and Anthony.

There were a couple of alerts last night, but I'm confident that the false alarms are decreasing. Let's lower the volume so that they're less disruptive when they do occur.

I'm still not sure we can trust the system. Is it really making the Cub House safer?

up to a lawsuit if Ohio passes new privacy laws." She cited recent lawsuits and settlements in Illinois involving Facebook, Google, and Clearview AI.

"Most people are uncomfortable⁵ when companies use this kind of technology," Tanya said. "I'm not sure it would be any different for the Cub House."

"Even if it makes us safer?" Beth asked. "What if we take the system out and there's another breach that we could have prevented? God forbid someone enters the facility with a gun! How would I explain that to parents—that we had the technology to better protect the kids but didn't use it? Wouldn't that open us up to a lawsuit too?"⁶

Tanya was silent for a moment. "Look, I'm not saying you can't use facial recognition software," she said. "But you've got to think it through, legally and ethically, and you've got to

make sure you're covered from all angles. If women of color start getting harassed by security guards, you can say goodbye to the Cub House."

GOOD TO GO?

For the next month Charles worked with the vendor to improve the security system's accuracy. They installed three high-resolution cameras at the reception desk, which they used to take photos from varying angles of everyone who entered and exited the building. A sign at the reception desk stated, "Your picture is being taken for security purposes." The facial recognition software tagged each photo with the visitor's name and access permissions. The more photos that were attached to each file, the more accurate the system would be in recognizing the face. To directly combat the issues

with feminine and dark-skinned faces, Beth had authorized the installation of high-powered lights at the reception desk so that the cameras could better capture distinctions.

To measure how well the system would work in real time, Charles used it during the summer recital, when most of the kids and their caregivers were at the Cub House listening to five-year-olds singing songs from *The Wizard of Oz*. He disabled the alarm but kept notifications active so that he'd receive an alert whenever a breach was registered. He received two that evening. The first was triggered when an unregistered parent entered the center without stopping at reception. The second was triggered by a registered father who took his toddler into a children's bathroom for a diaper change.

The next morning Charles brought in doughnuts, and he,



5. Pew Research has found that only 36% of people say they trust technology companies to use facial recognition responsibly

6. Do you think this technology is the most effective way to secure the Cub House? And if so, what technical adjustments and communication strategies should be implemented?



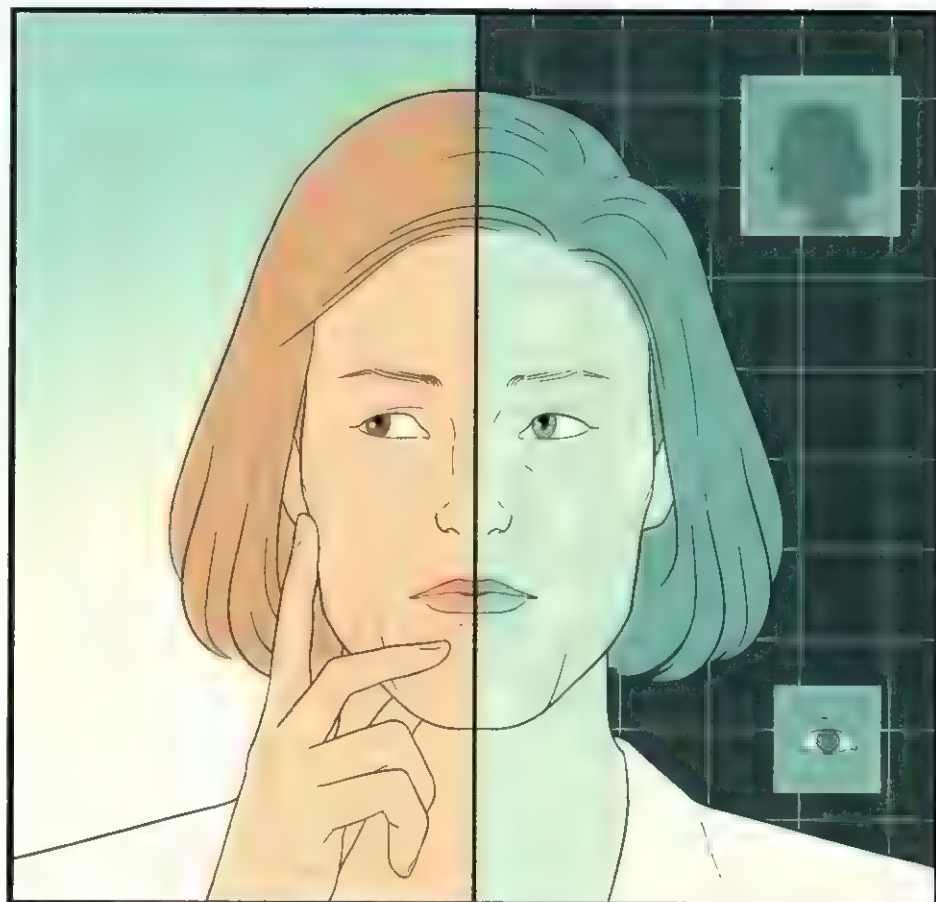
Experience

Beth, and Anthony discussed the results at a picnic table in the Cub House's backyard. Charles said he was confident that the system had improved and that false alarms, although inevitable, would be less frequent. He recommended lowering the volume slightly so that the alerts wouldn't be as harrowing. He had also drafted a letter to the community explaining the system and potential causes of false alarms and asking parents to forgive him in advance for any inconvenience.

Anthony was satisfied with the plan. At worst, the system would be an annoyance. At best, it would protect the kids and provide some help to his security staffers.

Beth was still worried that a month of tinkering and a night of testing wasn't enough to ensure the system's accuracy. A quieter alarm was better, sure, but what good would it be if not everyone could hear it? Would this technology really make the Cub House safer? Or would it open Beth's business to further problems?

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Should Beth implement facial recognition software at the Cub House?

The experts respond.



JOSEPH STEINBERG, a former CEO of SecureMySocial and Green Armor Solutions, is the author of *Cybersecurity for Dummies*.

I would ask Beth three questions:

Does the technology solve the problem that you are trying to solve? If so, is it

the best way to solve your problem? And does it solve the problem without creating new problems? The answer to all three questions is *no*.

Beth does not need, and should not use, facial recognition technology as a primary mechanism for securing the Cub House against entry by unauthorized parties. There are better ways to achieve her aims—and those ways will deliver better security than will facial recognition technology while creating fewer undesirable side effects.

Beth could, for example, issue scannable identification badges to authorized entrants. A guard could scan the ID of anyone trying to enter the Cub House and compare the appearance of would-be entrants with photos that appear on a computer screen. (The guard would no doubt become familiar with people who arrive every day.) Beth could lock from the outside and alarm all Cub House doors except the front entrance and give the guard camera views of all doors. She might even install two sets of doors in a man-trap formation at the entrance.

A classic approach may be less fancy than facial recognition, but it should also be more effective. Depending on how it is configured, facial recognition technology is likely to either create more false alarms or allow more unauthorized people to enter the Cub House than would a security guard. Also, unlike a guard, such a system cannot stop a would-be shooter or other unauthorized person from entering by force. The bottom line is that the Cub House is likely to be less secure with Beth's facial recognition system in place than it would be if Beth utilized an alternative, time-tested approach.



CEDRIC L. ALEXANDER
is the author of
*In Defense of Public
Service and The
New Guardians*

Facial recognition is a useful technology

We use it every day—to open our phones, when we travel, for security purposes. But you can't test and promote a product around facial recognition using only white people as your subject base, and you can't test it in one night during a concert, which is what Beth's team did. Before she

brought the system into the Cub House, where she's responsible for the safety of children, Beth should have talked to other vendors and other people who have experience with facial recognition systems. There needs to be reliable data to support the ability of the system to respond accurately. It certainly helps that the Cub House added lighting and a better camera system, but the company Beth is buying the technology from really needs to show her more data to prove that the system is accurate. She should ask the vendor directly, "Is this product being tested on a broad population of people?" Then she must work with the vendor to provide her staff with expert training, and she should require the staffers using the system to meet certification requirements.

I would have spoken to the parents up front, not just in a letter from Charles. Beth could have talked with them one-on-one or in groups. She could have explained everything to them: "Here is the technology we're going to be using to keep your children safe. This is the vendor we're considering using. Here's how the technology will reduce the likelihood of someone's coming in here and doing harm to your children." When you tell people that you're considering using a new technology, they have an opportunity to buy into it or to express their concerns. People are often willing to take part in something new and innovative, especially if it comes across as fair and productive. But if Beth doesn't talk to the parents and something goes awry, she'll face more backlash, even if Charles has already sent a letter.

In the next 10 or 15 years facial recognition systems will become a normal part of how we secure ourselves. But they must be refined, and we must do a better job of teaching the public the value of the technology. ☺

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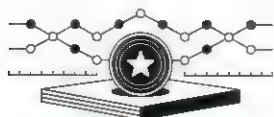
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SYNTHESIS

Our Social Media Addiction

How Facebook, Twitter, Instagram, YouTube, and TikTok took over our lives—and what to do about it

by Kelsey G ripen straw

I WAS IN high school when Facebook took off. This was in the mid-2000s, when the platform had a “wall” for public conversations, and you’d often post an uncurated album of 75 photos from a day out with your friends.

As an introverted, socially awkward teenager whose in-person interactions never seemed to go right, I liked the way Facebook allowed me to portray myself as I wanted. I created a profile that showcased my favorite quotes from classic movies and the music I had on repeat. In the

digital world, I was more open and candid. I got to know people that I wouldn’t talk to face-to-face—and I often used the platform to vent about my classes.

My social media use seemed harmless. But I soon noticed that my attention span and mental capacity were suffering. When trying to finish school assignments, I’d check Facebook repeatedly. Each day I spent hours scrolling through its pages. It got so bad that I had to temporarily deactivate my profile ahead of my final exams to eliminate temptation.

But after they ended I was back at it. I remember how, during a weeklong trip I took with my family that summer, we had no computer access (this was before smartphones), and I kept thinking, *I can’t wait to get home to check Facebook. I’ll have more notifications since I’ve been away.* Most notifications I got were surface-level comments or passive “likes” that didn’t really mean anything, yet it was so hard to stop checking them.

I knew that I should have been reading a book—or pursuing some enriching hobby—instead. I blamed myself, thinking, *This is how I’ve chosen to spend my time.* But I later learned that social media platforms are addictive by design: The notifications they’re built around trigger a dopamine release in our brains, just as recreational drugs and gambling do. My Facebook addiction wasn’t my fault.

As the *New York Times* reporter Max Fisher explains in his new book, ***The Chaos Machine***, “Dopamine creates a positive association with whatever behaviors prompted its release, training you to repeat them....When that dopamine reward system gets hijacked, it can compel you to repeat self-destructive behaviors. To place one more bet, binge on alcohol—or spend hours on apps even when they make you unhappy.”

Fisher says that the notifications themselves aren’t the problem. But they become one when social media platforms pair them with positive affirmation—those likes, follows, updates from friends, and photographs of family, pets, food, and beautiful scenery.

In another new book, ***Digital Madness***, the psychologist Nicholas Kardaras explains that the people behind Facebook and Instagram not only designed their platforms to be wildly addictive but have kept them that way even amid mounting evidence that social media overuse has a horrible effect on people’s mental and physical well-being. (The same is true for Twitter, YouTube, TikTok, and most other social media.)

One study that Kardaras cites found that university students who used social media for more than three hours each school day suffered from poor sleep and poor academic performance. They also had much higher rates of depression, substance abuse, stress, and suicide. Why? One likely culprit is too much false social comparison: In online posts, photos, and videos, the grass always seems greener elsewhere.

“Imagine,” Kardaras writes, “someone recently divorced and

alone staring at their Facebook news feed and seeing a never-ending stream of one happy family vacation photo after another from all their friends?... We can see how the effect can exacerbate the feelings of emptiness and despair—of *my life is a failure*.”

And children and teenagers (like high-school-era Kelsey) are uniquely vulnerable to getting hooked and suffering the consequences. In ***Influenced***, Brian Boxer Wachler, a doctor who somewhat ironically gained his fame on TikTok and other social media platforms, digs into this issue. In fact, he coined the term “dopamine behavior balance,” or “DBB,” to refer to the level of dopamine stimulation in those seeking out the activities that provide it.

Boxer Wachler contends that young people have become accustomed to turning to social media to maintain their DBB—and it’s reflected in their brain activity. In a UCLA study, MRI scans measuring blood flow to the brains of teenagers responding to Instagram likes showed that their nucleus accumbens, or reward centers, lit up with activity. Another MRI study found that adolescents were more likely to give a thumbs-up to photos that already had many likes and that seeing such photos stimulated areas of the brain that were entirely different from the areas stimulated by less popular photos.

Like Kardaras, Boxer Wachler asks readers to extrapolate: “Imagine what occurs when young people—whose brains are still developing—are exposed to positive and negative social media influences for hours on end while typically unsupervised,” he

writes. He notes that research has also revealed that multitasking with devices while doing homework and studying leads to lower gray-matter density in the anterior cingulate cortex, supporting evidence that using social media does indeed change the brain.

Boxer Wachler goes on to say that teenagers are more susceptible than adults are to the opinions of peers and influencers because their brains are still changing. They are more likely to feel “immediacy, connectedness, and intimacy” with the people they follow, including celebrities, and lack the critical thinking skills to recognize when they’re in an entirely one-sided relationship.

I did eventually manage to break my addiction to Facebook. These days it’s the last place I want to spend my free time—not just because its business is based on hooking people but also because it allowed bots to sow disinformation that unfairly influenced a pivotal presidential election.

At the same time, part of my day job is to oversee HBR’s presence on social media platforms. But our aim is to create safe communities for discourse and to share information that’s truly helpful to individuals and organizations. My hope is that others on these platforms—and the companies that created and maintain them—can work toward a future where they try to enrich rather than prey upon their users. ☺

HBR Reprint R2206N



The Chaos Machine
Max Fisher
Little, Brown,
2022



Digital Madness
Nicholas Kardaras
St. Martin's Press, 2022



Influenced
Brian Boxer Wachler
Rowman & Littlefield, 2022



KELSEY GRIPENSTRAW is the senior associate editor for audience engagement at HBR.

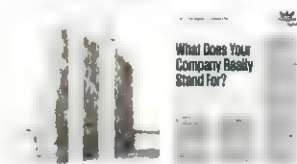
SPOTLIGHT



Defining Your Organization's Values

What are the leadership values underlying your organization's success? This article examines how understanding the relationship between values and performance can help you define your organization's values. **page 39**

Each article in this Spotlight is available as a single reprint. The complete Spotlight is also available as a package.
HBR Reprint R2206B



What Does Your Company Really Stand For?

Paul Ingram and Yoonjin Cho

The authors conducted dozens of studies designed to determine how a clear view of one's values can affect decision-making, motivation, relationships, well-being, leadership, and performance. They discovered that when a company's official values match those of its employees—a situation they call *values alignment*—the benefits include higher job satisfaction, less turnover, better teamwork, more-effective communication, bigger contributions to the organization, and more-productive negotiations, not to mention more diversity, equity, and inclusion.

HBR Reprint S22061



Strategy in a Hyperpolitical World

Robert L. Martin and
Morgan Reeves | **page 47**

The assumption that business and politics can and even should be kept separate is no longer realistic, the authors write, and messaging from the corporate affairs department is insufficient to defuse political issues when they arise. Delta's troubles in Georgia and Disney's in Florida are among the examples they cite. To make and implement the best strategic choices in this environment, leaders will have to: (1) develop robust principles to guide strategic choices; (2) address ethical issues early; (3) consistently communicate and implement their choices; (4) engage with and beyond the industry to shape the context; and (5) learn from mistakes to make better choices in the future.

HBR Reprint S22062



To See the Way Forward, Look Back

Ranjay Gulati | **page 53**

Most business leaders focus on the future much more than on the past, believing that their job is to embrace disruption and innovation, transform their organizations, and explore new frontiers. But decades of research on companies worldwide shows that most successful ones are also guided by core values and a clear purpose. These can often be uncovered by conducting a thorough audit of a company's history, original value statements, and purpose. Then leaders can decide what to preserve and what to let go—celebrating and collaborating around the good while acknowledging and moving on from the bad.

HBR Reprint S22063

HOW WE DID IT

MANAGING YOURSELF



The CEO of Hershey on Turning a Candy Company into a Snacks Empire

Hershey's is a company that has been around for over 150 years. It's a company that has been synonymous with chocolate. From the iconic foil-wrapped Hershey's Kiss to the chocolate syrup for milk or ice cream, the company's offerings have been enjoyed by generations of consumers. Over its long history Hershey has found dozens of ways to keep innovating with chocolate and other sweet treats—different brands, flavors, sizes, packaging, and products—and taken them to other geographic regions.

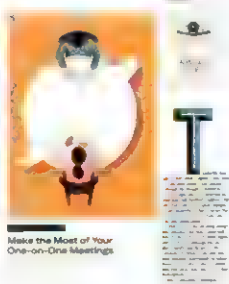
The CEO of Hershey on Turning a Candy Company into a Snacks Empire

Michele Buck | page 34

For decades in the United States, the name Hershey has been synonymous with chocolate. From the iconic foil-wrapped Hershey's Kiss to the chocolate syrup for milk or ice cream, the company's offerings have been enjoyed by generations of consumers. Over its long history Hershey has found dozens of ways to keep innovating with chocolate and other sweet treats—different brands, flavors, sizes, packaging, and products—and taken them to other geographic regions.

In the past few years, however, the company has embarked on a more ambitious journey. First, it set a bold new strategy: to make Hershey a powerhouse in snacks as well as confections, by expanding into savory and better-for-you product categories. Then it streamlined global operations, bolstered its core businesses, developed a more courageous culture, and executed a series of diversifying acquisitions. In the process, Hershey became more entrepreneurial, adaptable, and resilient.

HBR Reprint R2206A



Make the Most of Your One-on-One Meetings

Make the Most of Your One-on-One Meetings

Steven G. Rogelberg | p. 35

Few organizations provide strong guidance or training for managers on meeting individually with their employees, but the author's research shows that managers who don't hold these meetings frequently enough or who manage them poorly risk leaving their team members disconnected, both functionally and emotionally. When the meetings are done well, they can make a team's day-to-day activities more efficient and better, build trust and psychological safety, and improve employees' experience, motivation, and engagement at work. The author has found that although there's no one-size-fits-all approach to one-on-ones, they are most successful when the meeting is dominated by topics of importance to the direct report rather than issues that are top of mind for the manager. Managers should focus on making sure the meetings take place, creating space for genuine conversation, asking good questions, offering support, and helping team members get what they need to thrive in both their short-term performance and their long-term growth.

HBR Reprint R2206L

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Gregory Daly, ASSISTANT DIRECTOR, OPERATIONS

Features

MANAGEMENT



HBR 100th: The Ideas That Inspire Us

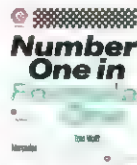
Harvard Business Review published its first issue 100 years ago with a mission to help leaders put the best management thinking into practice. To mark our centennial, we asked eight current and former CEOs from some of the world's top companies to describe the ideas that have propelled their own careers and organizations.

- Stéphane Bancel, the CEO of Moderna, on planning from the future back
- Anish Shah, CEO of Mahindra, on purpose-driven strategy
- Roz Brewer, CEO of Walgreens Boots Alliance, on listening as a leader
- Nicolas Hieronimus, CEO of L'Oréal, on global vision with local execution
- Joey Wat, CEO of Yum China, on continuous innovation
- Mo Ibrahim, former CEO of Celtel, on inclusive capitalism
- Ignacio Galán, CEO and chairman of Iberdrola, on transparent sustainability reporting
- Indra Nooyi, former CEO of PepsiCo, on performance with purpose

As we at HBR look to the future, we recommit to our mission of helping leaders build a better world for customers, employees, partners, and communities.

HBR Reprint R2206C

LEADERSHIP



Number One in Formula One

Toto Wolff, the team principal for Mercedes-AMG Petronas—arguably the most impressive team in F1 racing history—has led his organization to unparalleled success. Mercedes earned the Constructors' Championship (for best overall team performance) every year from 2014 through 2021, and over that time frame it won nearly 70% of the Grand Prix races it competed in.

To understand what made that possible, Harvard Business School's Anita Elberse spent time with the team in 2021, conducting interviews and watching what went on behind the scenes before, during, and after races. She found that Wolff shapes the culture at Mercedes to a remarkable degree. Elberse's takeaway? What you say and do as a leader has a surprisingly powerful effect on the organization you run.

In this article, drawing on her observations of Wolff's management style and practices, Elberse presents six lessons that can help any leader cultivate a winning team: (1) Set the highest standards for everyone; (2) put people front and center; (3) analyze mistakes continually—even when winning; (4) foster an open, no-blame culture; (5) trust superstars but maintain authority; and (6) relentlessly battle complacency.

HBR Reprint R2206D

INNOVATION



Your Company Needs a Space Strategy Now.

Space is becoming a potential source of value for businesses across a range of sectors, including agriculture, pharmaceuticals, consumer goods, and tourism. To understand what the opportunities are for your company, the authors advise you to consider the four ways in which using space could create value: data, capabilities, resources, and markets.

For most companies thinking about their space strategy over the next five to 10 years, data will be the dominant focus. For instance, many companies are turning to remote-sensing satellites for data that will inform business decisions. Whether it's tracking the number of cars parked in retail locations, detecting costly and environmentally damaging methane leaks from natural-gas wells, or assessing soil type and moisture content to maximize crop yields, creative uses for data gathered from space abound.

Companies looking further ahead will want to explore the value to be gained from conducting activities in space, utilizing space assets, and meeting demand from the new space age.

Businesses engaging with commercial space should be willing to experiment and should look for partners.

HBR Reprint R2206E

DIVERSITY & INCLUSION



The Five Stages of DEI Maturity

Many organizations take big actions in the realm of DEI because of something they see another company do—such as publicly declaring themselves champions of people of color or setting an ambitious top-down DEI strategy across the firm. However, these grand stances usually fizzle out, leaving leaders frustrated and saying, "DEI work is too hard. It takes too long to see results."

The fact is, DEI isn't a short-term project, and a company making big moves before it has the right culture and structures in place is likely to fail, leaving marginalized employees and customers no better off and giving companies a reputation for hollow promises.

Academic research and the author's experience working with firms on DEI strategy suggest that companies tend to follow predictable stages on their DEI journey. In this article, Georgetown professor and organizational psychologist Ella F. Washington describes the five stages: *aware*, *compliant*, *tactical*, *integrated*, and *sustainable*. She also includes questions for leadership teams to ask themselves. Understanding what stage your company is in can help you decide where to focus your energies most effectively and keep you from getting stuck.

HBR Reprint R2206F



From Prediction to Transformation

Ajay Agrawal, Joshua Gans, and Avi Goldfarb | page 100

While the popular view is that *insights* are the key benefit of artificial intelligence, in truth AI creates value by improving the quality of decisions. The good news is, the opportunities for it to do that in business are countless. But because decisions in one area of an organization usually have an impact on decisions in other areas, introducing AI often entails redesigning whole systems. In that way, AI is similar to groundbreaking technologies of the past, like electricity, which initially was used only narrowly but ultimately transformed manufacturing.

Decisions involve a combination of prediction and judgment, and because AI makes highly accurate predictions, it will shift decision rights to where judgment is still needed, potentially changing who makes decisions and where, when, and how. More-accurate predictions in one part of a value chain will also have ripple effects on other parts. For instance, if a restaurant can reliably forecast the amount of ingredients it needs each week, its orders will fluctuate, making its suppliers' sales more uncertain. Strong communication is needed to synchronize effort and resources in a system, and modularity will help prevent changes in one area from disrupting others.

HBR Reprint R2206G



How to Do Sponsorship Right

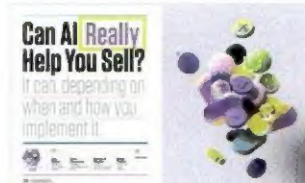
Herminia Ibarra | page 110

Mentoring programs operate under the promise that matching seasoned executives with up-and-coming professionals will produce all sorts of benefits. Unfortunately, relationships often remain superficial and transactional. These problems have only gotten worse with remote and hybrid work, which makes meaningful personal interaction difficult.

To reap the full benefits of developmental relationships and create "authentic sponsorship," companies must focus on two vital qualities: public advocacy and relational authenticity. Public advocacy is a one-way process by which "seniors" use their power to help "juniors" get career opportunities. It produces visible and measurable outcomes, such as promotions and stretch assignments. Relational authenticity is a two-way process in which both parties share their perspectives and make themselves open to hearing and learning from each other. Juniors get the support and validation they need to take on new challenges, and seniors understand where their juniors' capabilities and talents lie and care enough about them to put their own reputations on the line.

This article lays out the various stages of the journey to authentic sponsorship: mentor, strategizer, connector, opportunity giver, and sponsor.

HBR Reprint R2206H



Can AI Really Help You Sell?

Jim Dickie et al. | page 120

Many salespeople today are struggling; only 57% of them make their annual quotas, surveys show. One problem is that buying processes have evolved faster than selling processes, and buyers today can access a wide range of online resources that let them evaluate products before even meeting a salesperson. AI tools can help organizations close the gap, but most don't know how to use them effectively. In this article the authors describe how sales AI has been a real game changer at a few companies. They also provide a self-assessment tool, the Sales Success Matrix, that will show sales leaders where to start or improve their AI journeys.

The matrix has two dimensions: relationship level (which runs from transactional vendor on the low end to trusted co-creator at the top) and process level (which runs from ad hoc to customized). At the lower levels of both relationships and processes, simple AI that decreases costs and improves efficiency works best. In the mid levels, advanced AI increases sales effectiveness by analyzing opportunities and customer needs. At the highest level, cutting-edge technologies help firms generate deep insights about customers.

No matter where a firm falls on the matrix, AI can help it boost sales. And the sooner and more broadly it applies AI tools, the better they work.

HBR Reprint R2206J



Moving the Needle on Sustainability

Goutam Challagalla and Frédéric Dalsace | page 130

Many sustainability initiatives focus on improving the sustainability of products and operations in legacy or adjacent markets or on achieving sustainability gains by exploring new markets with a more diverse set of products. This is a variation on the classic "where to play/how to win" strategy familiar to most executives. Fewer leaders, however, are exploring an important new frontier in sustainability, in which brands actively partner with customers to achieve ongoing impact.

This article describes a practical framework for creating sustainability strategies that take into account both dimensions—markets and customer engagement. The model lays out the four key ways that legacy companies can nurture growth in their sustainability efforts.

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Life's Work



"We had no business plan. It was all intuitive—my instincts about what the magazine should stand for and what it should cover."



Wenner in Rolling Stone's San Francisco offices in 1968.

Jann Wenner

Wenner was just 21 when he cofounded Rolling Stone, and for the next five decades he remained at the helm of the magazine, helping it revolutionize not just music journalism but also the way politics and social issues were covered. He says he's proud of a legacy that includes "discovering, promoting, and proselytizing for great talent" and "hopefully making a consequential contribution to progress toward human justice." His memoir is out now.

Interview by Alison Beard

HBR: Why did you launch Rolling Stone?

WENNER: I was a rock and roll fan but not a good guitar player. I just got consumed by music, and I wanted to learn more about it and be a part of what the Lovin' Spoonful called "the magic that can set you free." Ralph Gleason, my cofounding partner, laid out the philosophical underpinnings of the magazine in an essay for the *American Scholar* called "Like a Rolling Stone." Our premise was that rock and roll was important and carried very serious social and political messages.

How did you choose which musicians to feature?

We just covered what we liked. The implication of your question is that there was some kind of methodology that went into all of this. The reality was that it was

done completely on the fly, spontaneous, catch-as-catch-can, serendipity.

You worked with some of the great late-20th-century writers—Hunter Thompson, Tom Wolfe, and others. How did you choose their assignments, get them excited and focused, and, when necessary, rein them in?

In my experience the best writers are often the easiest to work with. They're disciplined and have a vision of what they want to do. You steer them in a direction where they're naturally inclined. I could see what sparked their passion and what they could bring their insight to. I just encouraged them; I didn't tell them how to do anything. Of course, there was monitoring and a little nudging but no big moves beyond the assignment—just insight, sympathy,

tolerance, humor, and patience. Probably one of my best gifts was being able to understand creative talent: how it behaves, how to bring the most out of it, how to manage it. That applies to the artists we covered and the people who worked for us.

You were chummy with many big musicians and record-label heads. Was that a conflict of interest? How did you handle it?

It was easy. You make decisions according to your journalist and publisher instincts and your sense of news. We never shrank from that, and nobody expected anything different. Our value to artists and to the readers was that we had integrity.

Did your leadership style change over time?

I got a little less mercurial, more thoughtful. I learned that once you start yelling at people, you've already lost your argument. I was still very tough, but I always tried to inspire people to do a good job. And if they did that, I didn't care what days or hours they were working or how they went about it. Just do your best and enjoy yourself—that's what I demanded of people. And if they weren't doing their best, I would let them go.

How are you handling retirement?

It's pretty good. I wrote my book and enjoyed it enormously. I mean, I initially set out to be a writer. I just got sidetracked into editing because at that time, in 1967, there was no place I could write about rock and roll. ☺

HBR Reprint R2206P

Baron Wolman Collection/Rock & Roll Hall of Fame/Getty Images

CSC: Miami

Content Supply Chains must be forensic in their detail.

Television broadcasters have long relied on instinct, market knowledge and spreadsheets to forecast TV viewership - but instinct needs to partner with information; market knowledge is never enough; and spreadsheets are no way to excel.

As witness to these challenges, Fractal undertook its own detective work.

By combining AI, data engineering and user-centric design, Fractal created an industry-first TV forecasting system for Europe's leading media and entertainment company. The result? Up to 30% improvement in forecast accuracy.

Fractal: perfectly targeted and timed TV, no drama.



fractal

Time
travels the world.

ARCEAU LE TEMPS VOYAGEUR



TIME, AN HERMÈS OBJECT.


HERMÈS
PARIS